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GLOBAL POLITICS IN THE 1980S:
A CONTEXT FOR STRATEGIC PLANNING

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GLOBAL POLITICS IN THE 1980S:
A CONTEXT FOR STRATEGIC PLANNING

As the 1980s begin, striking changes in the basic patterns of global political and economic relationships have appeared, including a slowdown in the growth of both the industrial democracies and the advanced communist nations, the emergence of Islamic fundamentalism in the Middle East, the defeat of most third world initiatives, the rising danger of Soviet-American conflict, the reemergence of third world debt issues, and numerous other trends of great importance to governments, banks and industrial firms. The following study will focus on the political aspects of those trends, although numerous remarks will be made about the economic context. The analysis will examine successively the conditions of the industrial democracies, of rich-poor nation relationships, of relations between the industrial democracies and the communist nations, of relations among the communist nations themselves, and then of various regional and functional relationships.

The Industrial Democracies

The industrial democracies of Western Europe, North America, Japan, and Australia-New Zealand have moved into a period of slow growth, social malaise, and crises of leadership which are common to nearly all of them. The first element of their common problems is economic stagflation. The slowdown of growth and the rise of inflation have numerous roots. By the mid-1970s, the industrial democracies had recovered from World War II. The basic drive of the median family to achieve its first house, its first car, and its basic set of appliances had ended, and the recovery of infrastructure in Japan and Western Europe was more than achieved. This completion of recovery, together

with declining population growth, a relative decline in military spending, distortions to long-term planning caused by rising inflation, rising non-tariff trade barriers, and the inability of governments to increase demand at will in periods of high inflation, all reduced the growth rate of major sources of demand in the economy. In addition, the economy experienced diminishing returns on increments to education of the labor force and diminishing returns on the shift of population from agriculture into industry. Throughout the West, public values and attitudes have steadily shifted away from high emphasis on growth to an emphasis on health, safety, equity, stability, environmental improvement, and avoidance of all kinds of risks. Governmental response to such attitudinal changes has magnified them, bureaucratized them, and frequently not taken into account the magnitude and social costs of growth opportunities lost by emphasis on such values. Simultaneously, the West has entered a phase of institutional arteriosclerosis, with decision making slowed down and sometimes immobilized by changes in the structures of major institutions and of relationships among those institutions. Pressure groups have multiplied, and their impact on the policy process has strengthened, thus slowing decisions. Giant institutions, including Congress, the executive branch, the judiciary, big business, big labor, big education, the military, and others have expanded the scope and influence of their activities, thereby getting in each others' way more often and further slowing the decision process. Rising energy and environmental costs have made increments of growth more expensive and have slowed down the process of adjustment to new world conditions.

The second pervasive phenomenon among the industrial democracies is a broad social consensus. This consensus is exactly the opposite of the

condition which pertained during the difficult economic times of the 1930s, when societies polarized under the pressure of difficult economic conditions into fascists on the right and communists on the left. Public opinion is to be found primarily in the middle of the spectrum at the dawn of the 1980s, rather than at the polar ends of the spectrum. There is agreement on moderate policies and incremental change as the basic philosophy of life. In short, the social bond appears quite strong.

This strong social consensus, however, co-exists with a third common element among the industrial democracies, namely political weakness. Across the Western world, the parties which hold office do so precariously, and the men who hold the highest political offices are weak in authority and in public esteem. Tanaka, Fukuda, Miki and Ohira in Japan, Carter in the U.S., Callaghan and Thatcher in Britain, Demirel in Turkey, Giscard in France, the various ruling individuals and parties in Denmark, the Netherlands and Belgium, and Falldin in Sweden all gained power by a narrow margin and hold it by a precarious balance. Most of the great political parties of the West live or die in office by a margin of one or two percent. These individuals and parties with weak grips on power are incapable of highly imaginative leadership, because any policy which is imaginative or innovative would likely put their slight electoral margin at risk.

This condition of political weakness is consistent with the impressive social consensus to a large extent because the content of the social consensus emphasizes that no group should be forced to pay a high price for change. This is the negative aspect of a social consensus on moderation. Neither labor nor business nor government bureaucracy nor any other major social group will be asked to pay a price for decisive policies which would shake the West

out of its domestic stagflation or mobilize it to deal with potential international challenges. This unwillingness to exact a major price for change co-exists with a consensual expectation that conditions will continually improve for every major group. Not only will there be in this period no willingness to accept the kind of price workers paid for the industrial revolution, or small farmers paid for the modern agricultural revolution, but, more important, no group will accept that its conditions of life should fail to improve. Thus, the content of the consensus belies its apparent strength of commitment. The result in a world of stagflation can be dangerous: in Sweden, long the model of Western social consensus, meliorative policies, and commitment to moderation, declining growth rates at home and dwindling competitiveness abroad created such a contradiction in the spring of 1980 between high expectations and low achievements that the basic economic consensus of the society broke down in what became a general strike and general lockout. For societies with the same problems and somewhat less impressive social consensus, such as Belgium, the Netherlands, Britain, and the U.S., the example is potentially ominous.

One of the principal manifestations of this social consensus on weakness is a pervasive absence of strong leadership matched by a general yearning for leadership. Great individual leaders and great leading institutions emerge during periods when society is united around some well-defined goal and when dominant social groups are willing to pay a high price to achieve that goal. Hence it is not surprising that the great leaders of the modern West grew out of societies desperately embroiled in war: Churchill, Roosevelt, De Gaulle, Truman, Eisenhower. The late 1970s and the early 1980s are quite different. They are periods of diffuse goals, of social fragmentation, of yearning for

leaders without willingness to accept the price of followership. Political parties in Japan, the U.S., Italy, Britain, France and other countries are for the most part divided and weak. There is no social elite in any of these societies which is universally admired. There is a general yearning for leadership, which could occasionally give rise to a Margaret Thatcher in Britain or counterparts elsewhere. The appeal in America of Kennedy on the left and Reagan on the right, rather than the usual crystallizing around centrist figures, exemplifies the same trends.

The implication for the West in the 1980s is a period of stagflation, muddling through, fragmentation, indecisiveness, and a general sense of world weariness which is likely to persist unless some great crisis shocks the society and mobilizes opinion around some generally accepted goals. There is some possibility that such a shock would occur, though by definition no such shock would be pleasant. An economic collapse brought on by high energy prices, pockets of extreme indebtedness, social strife, and indecisive management is one possibility. A political-economic crisis focused on the Middle East and involving some combination of international warfare and a substantial shutdown of oil supplies is another. Intense Soviet pressures on Europe or Japan or even China could cause mobilizing shocks.

This syndrome of economic stagflation and political malaise in individual countries has its international counterpart. A period of almost continuously rising prosperity and regularly improving detente until the late 1970s coincided with, and to some extent caused, a series of difficult international problems for the industrial democracies. The recovery of Japan and Western Europe from World War II implied a greater degree of political, economic and military equality with the U.S. and, necessarily, a reduced willingness to

accept U.S. hegemonic leadership. While the foibles of poor leadership and indecisive politics are common to most of the industrial democracies, they are most visible in the leader of the Western alliance, namely the U.S. as personified by Jimmy Carter. Hence, Western Europe and Japan have increasingly demanded a larger voice in the decisions of the West, and these demands have taken the form of conflicts over trade, military policy, diplomatic relations with the Middle East, and nearly every major issue of world affairs. However, when the U.S. has proffered a role in major decisions, as it did in the case of the offer of neutron weapons to Western Europe, the allies, in their weakened political state, have suddenly discovered that there is a major political cost to making such decisions and have angrily rebuked the U.S. for trying to transfer the burden of decision to them.

Within the West, during an era of weak leadership, pressure group influence, and economic difficulty, the temptations of beggar-thy-neighbor policies are as great in the political realm as in the economic. In dealings with the East, detente has entangled the West Europeans with their communist counterparts to a greater extent than has happened with the U.S. When issues arise between the West and the East, as they have over the war in Afghanistan, West European merchants see their trade threatened, West European bankers fear for their unsecured loans in Eastern Europe, West Germany fears for its ability to purchase the freedom of East Germans, France fears for the future of its independent foreign policy, and all of Western Europe fears the loss of its gradual trend toward reconciliation with the East. The result is a gradual erosion of alliance ties through a multitude of frictions over protectionism, military policy, human rights policy, Israeli-Arab relations, energy policy, NATO nuclear deployments, nuclear non-proliferation policy, and relations with

the third world. Simultaneously, the Soviet Union has engaged in a major buildup of military power, while the West, stumbling in the wake of Vietnam and unwilling to take resources away from domestic economic welfare programs, has allowed its defenses to weaken or at least to grow more slowly. This has created a situation in which the Soviet Union has acquired, for the first time since World War II, the potential to intimidate Western Europe successfully, while NATO has neither the military force to rebut the intimidation nor the unity to respond with a common answer. Equally important, the Soviet Union has for the first time demonstrated, in the latter 1970s, the ability and will to employ force decisively in the third world, directly and through Cuban proxies. Thus, particularly after Afghanistan, the West is badly split, with Western Europe pursuing a local detente and the U.S. pursuing a cold war with the Soviet Union in the absence of cooperation from its allies. The unity of the West is threatened by the weakness and incompetence of the U.S., by the provincialism and infidelity of Western Europe, and by the new magnitude and geographical diversity of Soviet challenges. It is further divided by profound disagreement as to whether the greatest risks come from appeasement of an aggressive Soviet Union (the U.S. view) or from simple-minded miscalculation in complex, interconnected crises (the West European view).

All this suggests that the sluggish growth and inflation have deep social, political, and international roots and that the West will continue to stumble along in a condition of political-economic-social malaise unless shocked out of this condition by some large and dramatic event. The condition of malaise may be occasionally punctuated by sudden local manifestations, such as the 1980 near-collapse in Sweden, by large problems such as the oil shocks, and perhaps by the occasional emergence of unexpected new leaders of a more

flashy, ideological and unpredictable variety than the West has been accustomed to in the past generation.

North-South Relationships

Since World War II, the theme of anti-colonialism has united what came later to be called the third world. During the 1950s, when many countries were still colonized and when most of Asia and Latin America were still quite weak, the principal expressions of the common anti-colonial interests were specific, local demands for political independence, together with a very weak neutralist movement led by such countries as Yugoslavia and India. Over the years, however, the possibility of a more outspoken and cohesive group evolved due to a number of circumstances. Most countries became independent, and leaders emerged who not only could speak out but often obtained domestic political advantages from speaking out loudly. Substantial numbers of third world economies evolved to the point where their leaders could actively manage them and where they could occasionally bargain successfully with creditors, suppliers, and purchasers. The U.N. General Assembly evolved into a forum where the increasingly numerous votes of the third world carried increasingly great weight, and specialized agencies of the U.N. came to be dominated by third world members. The decline of the cold war provided political space within which third world countries could maneuver, and the weakness of the U.S. after its defeat in Vietnam rendered the U.S. a far weaker defender of its own positions. Finally, the success of the OPEC oil embargo and price rise 1973-'74 seemed to many third world countries to provide an auspicious omen of future third world success.

The third world movement developed at that time an image of considerable strength. Such analysts as Zbigniew Brzezinski proclaimed that the the North-South split was replacing the East-West split as the center of world politics. Through the speeches made at the General Assembly of the U.N., through the documents of specialized U.N. agencies such as UNCTAD, and through official proclamations of the Group of 77, third world leaders proclaimed that they were going to institute a New International Economic Order based on cartels, on forgiveness of third world debts, on special access to the markets of the rich countries, and on gaining political influence through a variety of forums. Seven years after the initial oil crisis, it is possible to make an initial judgement about the prospects of the third world movement based on its performance in these areas of greatest concern.

First, the third world movement sought to create cartels in most basic commodities and to create a common commodity fund which would draw together the funding and institutional infrastructure of eighteen separate commodity cartels. Efforts toward these ends have been almost uniformly unavailing. Coffee, tin, and cocoa price agreements were overwhelmed by shortages. Efforts to create cartels in copper, timber and vegetable oils have been completely unsuccessful. Negotiations to create an international agreement on cotton have made little progress and have poor prospects. Only the rubber agreement represents a significant achievement, although a prospective sugar cartel may have some success because of the adherence of the U.S. Efforts to create individual commodity cartels have, in short, reinforced the lesson that commodity prices will be largely determined by market forces rather than by rise in 1973-'74 seemed to many third world countries to provide an auspicious omen of future third world success.

diplomatic agreements. Even OPEC, the successful oil cartel, succeeded largely because of market forces rather than successful curtailment of supply. The shift of the U.S. from petroleum self-sufficiency to heavy import dependence, and the loss of a large proportion of Iranian oil supplies, have been the dominant forces behind OPEC's price success. In periods of glut, OPEC threatens to come apart, and its efforts to curtail supply have so far been effective only at the margin -- except in the immediate aftermath of the 1973 Middle East War. Like other commodity booms, the oil boom will end some day -- perhaps later in the 1980s.

The record in constructing a common fund, which could coordinate and reinforce the programs for the eighteen proposed individual commodity agreements, is similar. The West took the position that such a common fund should only service the individual commodity funds. The South took the position that the common fund should also underwrite other activities, such as product development and market research. Negotiations have evolved toward a compromise in which this difference is papered over by having a fund with two windows, namely a mandatory window for donations to service the individual commodity programs and a voluntary window for contributions to product and market research. In the struggle over organizational control of the common fund, the North refused to concede majority control to the South, but allowed the South to gain de facto control; the South's partial victory was further eroded when Northern conservatism limited the funding to only \$400 million of the proposed \$6 billion. In short, the entire exercise has become more a matter of political face-saving than a transformation of the world economic order.

Third world demands for remission of debts owed to the rich countries had a similar fate. The debt issue was of course a major one after the 1973-'74

oil crisis. Third world countries had accumulated a large amount of ten-year debt in earlier years. Following the OPEC oil crisis, third world countries' needs for financing increased and the terms worsened, so they accumulated a large amount of five-year debt. These two waves of debt came due simultaneously toward the end of the decade, creating a "hump" of debt of considerable magnitude. For a number of countries, including Zaire, Bangladesh, Pakistan, North Korea, and Peru, this debt appeared as a major threat to their aspirations and as an unacceptable imposition from abroad. These feelings determined the thrust of third world rhetoric on the issue of debt. However, the actual interests and policies of third world countries toward debt were considerably more complex. The countries which held most of the debt were Brazil, Mexico, and South Korea, along with various other Pacific Asian countries, all of which had achieved extraordinary economic growth based on use of commercial debt to acquire productive equipment. All these countries understood that their future economic prospects depended upon their continuing ability to acquire loans from Western commercial banks, and therefore all realized that their credit ratings were crucial to their economic futures. As a result, all of the most successful, most powerful, and most indebted third world countries opposed movements for a general debt moratorium. The rich countries, anxious to maintain the system, refused to consider demands for a general moratorium, but judiciously turned loans into grants for a number of the poorest countries, both for general humanitarian reasons and to avoid the precedent of a series of debt repudiations. For all these reasons, the third world movement and found itself divided and weak, and demands for a general debt moratorium failed completely.

Third world demands for special access to the markets of the northern countries met a similar fate. While various southern groups achieved some

preferential access to northern markets, for instance through the Lome convention, demands for open access to markets became much more reciprocal between North and South than they had been in the past, rather than being one-sided openings to the South. As stagflation spread in the North, restrictions on southern exports of textiles, shoes, steel, ships and other key commodities became tighter. Moreover, simultaneously, the North launched a major attack on key southern forms of protectionism. For instance, the U.S. took Brazil to task for such practices as demanding 360-day deposits of the full cost of imports, a practice which amounted to paying tax equal to the Brazilian rate of inflation, or about 40% in those times.

On political issues, most third world initiatives were defeated. The Law of the Seas talks collapsed and the North announced that it was prepared to go ahead alone with sea bed mining unless the South made concessions. Third world negotiators were largely excluded from the trade negotiations of the late 1970s on the grounds that adding too many additional voices would make the talks unwieldy and prejudice their success. The Council on International Economic Cooperation failed to concur on most of the major issues on its agenda, such as linking commodity prices to inflation rates, compensating third world countries for trade revenue declines, creating guidelines for multinational corporations, pressuring OPEC into concessions, and sponsoring a general debt moratorium. Third world splits emerged on the issues of debt, resentment of OPEC, and attitudes toward the warfare in Indochina. On Cambodia, the third world movement split between a group led by the Soviet Union, Cuba and Vietnam, and an opposing group led by Yugoslavia, Romania, Egypt, and India. The Soviet invasion of Afghanistan further weakened the third world movement by deeply embarrassing Cuba, then the president of the movement,

which had attempted to drag the movement ever closer to the policies of the Soviet Union.

In short, the aspirations of the third world movement to assert itself as a coherent political and economic force in the creation of a new international economic order has largely failed. The weakness of cartels relative to market forces, the division of interests over debt, the weakness of third world political demands relative to pressures caused by economic difficulties in the rich countries, the intransigence of northern parliaments over aid, and deep division over the major world political issues, have largely destroyed the third world's hopes for attaining its programmatic goals.

Although the third world movement has so far been defeated at the practical political level, this does not mean that the economic performance of third world countries has constituted a failure. In the 1970s third world countries as a group achieved growth rates approximating 6% per annum. Such growth lags behind aspirations but is extremely high by any historical standard. Disastrous failure was largely confined to a small number of countries in South Asia and Africa. Pacific Asia experienced growth rates that are unparalleled in human history, the Middle East experienced prosperity based on the oil boom, and Latin American countries' aggregate growth performance was quite respectable. Behind the failure of many third world initiatives for a new international economic order was the success of large regions in attaining substantial economic progress. This progress was particularly evident in a group of countries with great political significance, namely, South Korea, Taiwan, Brazil, Iran, Saudi Arabia and South Africa. These countries experienced extraordinary growth, depended upon economic ties to the West for continuation of that growth, and relied heavily on the diplo-

matic protection of the U.S. to ensure their future security. These were the third world countries to which Western policies were most tightly tied, the countries in which Western multinational corporations invested most heavily, and the countries to which Western banks lent most heavily.

For a variety of reasons, most of these New Industrializing Countries (as they came to be called) began to get into difficulty toward the end of the 1970s. For the first time since 1961, South Korea found itself with a combination of economic and political trouble that cast doubt upon the future of the country. The country's leader, Park Chung-Hee, aged and became politically isolated. The country's rapidly growing economy created powerful social pressure groups which the system had not previously confronted. A more complex economy became more difficult to control from the center. Economic and security success led people to put greater emphasis on political values. Stagflation in the Western economies reduced growth of South Korea's export markets and enhanced Western protectionism. Years of success created overconfidence, which led to gambling on huge heavy industrial investments, which in turn caused inflation. Hence a difficult political transition reinforced a painful economic transition.

Brazil experienced a similar evolution, confronting a combination of economic and political problems that had not appeared since 1964. The pattern was similar to South Korea's. As in South Korea, economic success caused economic complexity, the emergence of strong social groups, and a new emphasis on political values. The oil crisis and Western stagflation hit Brazil hard. While Brazil lacked the political problem of an aging leader like Park Chung-Hee, it confronted a major social problem, that of massive income inequality, which South Korea had resolved a generation earlier. Once again

economic and political problems reinforced each other.

Taiwan has so far avoided serious political and economic problems but eventually it will have to deal with a crisis of constitutional structure. Its current regime justifies minority Kuomintang rule through the fiction that the Kuomintang represents all of China. Derecognition by the U.S. and disappearance of the mainland's military threats (hitherto a cause of Taiwanese unity) imply an eventual crisis. Meanwhile, Taiwan's superb economic management will be increasingly tested as it seeks to maintain competitiveness in a period of weak Western markets and rising challenges from poorer countries.

In the Philippines, President Marcos was unable to achieve the kinds of economic growth successes that South Korea, Taiwan and Brazil achieved, and he also proved unsuccessful in confronting the problem of social inequality. While Philippine problems lack the drama and intensity of Brazilian and Korean problems, Marcos's ability to finance his economy by acquiring additional foreign debt gradually came into question by 1980. His ability to maintain control of his country came gradually into question as Muslim and communist dissidents gradually seized control of large areas. And the long-run future of the nation came increasingly into doubt as nutrition levels declined, population grew, and social inequality increased.

The problems of the Muslim countries were different but related in time by a series of consequences. Iran and Saudi Arabia grew largely because of their oil wealth. The Shah of Iran aspired to be a political-military leader of the Middle East, and Saudi Arabia aspired to economic and religious leadership. Growing economies created a new middle class skeptical of the value of traditional norms. Modernization created terrible tensions by introducing

practices contrary to traditional Islamic beliefs, and these tensions expressed themselves in worker riots, discontent, and active reactionary political organization by religious leaders. Corruption detracted from the legitimacy of the leadership in both countries, and aging rulers gradually relaxed their grips on the reins. The Shah of Iran managed to lose the support of all social groups simultaneously and to precipitate one of history's major social revolutions. The Saudis, with their extended family regime, survived longer, but aging of the leadership, disgust over corruption, increasing tensions between modernism and traditional Muslim practices, and the emergence of riots together with the takeover of the Great Mosque in 1979, all raise questions about the long-run stability of the Saudi government.

South Africa, too, was a special case which coincided in time with others. South Africa's economic success, tied to the booming world economy of the 1960s and 1970s, also created social forces whose pressure for political change will eventually become inexorable. As more blacks become educated and more become integrated into modern technological industry, the likelihood of wide-ranging black political organization becomes ever more likely. With the rest of Africa fully decolonized, the pressure on the last bastion of white rule increases. As the West becomes increasingly dependent on trade with black African countries, and increasingly sensitive to the moral and political demands of third world countries, pressure on South Africa from the West is continuing to rise. The riots in Soweto in the late 1970s were undoubtedly a harbinger of things to come, but in South Africa the ultimate crisis appears to be a decade or two away. Nonetheless, the emerging problems began by the late 1970s to take their toll on American foreign policy interests and Western economic interests.

Accompanying this crisis of the new industrializing countries is the emergence of a new wave of debt crises. While the debt problems of the mid-1970s occasioned great alarm, the third world managed to survive the initial round of oil price increases. By 1979, however, the accumulating financial costs of rising oil prices and of rising capital goods prices had made many formerly creditworthy nations less able to face the second round of oil price rises in 1979 and 1980. The new financial problems supplemented the political and economic problems of the new industrializing countries. They interacted with the political and economic difficulties of a wide range of other countries, including Nicaragua, El Salvador, Guatemala, Turkey, Zaire, Pakistan, Poland and others. The result is the possible reemergence of the debt issue as a general third world demand, possibly this time backed up by countries with great political influence (such as Brazil). While such an outcome is by no means inevitable in the 1980s, the rising indebtedness of the most successful third world countries, and the rising difficulties of covering oil and machinery costs with increased exports, enhance the possibility of a broader and more cohesive third world position on debt.

On balance, the third world has established a pattern of economic growth which can probably be sustained, despite current problems. This pattern of economic growth has greatly benefited large numbers of third world people, and it has strengthened much of the world against the danger of warfare and subversion. Throughout Northeast and Southeast Asia, and some of Africa, rising economic growth and rising administrative competence have made economic development more successful, and rising technological levels and nationalism have made interstate warfare more costly. Whereas the Philippines used to quarrel about territory with Malaysia and Indonesia, Malaysia used to quarrel about

territory with the Philippines, Indonesia, and Thailand, and so forth, today most of these conflicts have disappeared from non-communist Southeast Asia. Similar conflicts are vanishing more slowly elsewhere in the world. However, both the successes of the 1960s and 1970s, and the economic difficulties of the early 1980s, tend to create additional instability in key industrializing countries, jeopardizing several of the principal pivots of Western foreign policy. Moreover, the slow world growth rate, and the rising oil and capital goods prices in the late 1970s and early 1980s, are particularly threatening to the third world basket cases, notably those nations of South Asia and Africa which have not succeeded in laying the groundwork for adjusting to more difficult economic times. The result is a pattern of increasing instability and risk in both the most successful and the least successful countries of the third world.

It is noteworthy that none of the successful countries of the third world so far represents a major opportunity for the Soviet Union, nor have patterns of economic success anywhere led to third world developments which threaten most fundamental economic interests of the North. The fundamental threats to world stability and to Western interests have arisen not in the strong countries of the South but in the disaster areas of the South. Recent Soviet expansion has occurred not in Brazil and South Korea but in the desperately poor, tribal areas of Afghanistan, Yemen, Ethiopia and Angola.

East-West Relationships

East-West relationships in the late 1970s and early 1980s are dominated by three fundamental trends. First, the Soviet Union has engaged in a steady build-up of military strength which has for the first time, in the late 1970s

and early 1980s, yielded rough Soviet nuclear parity with the U.S. and a worldwide Soviet logistics network. Nuclear parity gives the Soviet Union the option to use non-nuclear forces without having to fear U.S. threats of a devastating response. The logistics network provides a capability to intervene throughout much of the third world, as it is done in Afghanistan, Angola, and Ethiopia, and to a lesser extent in many other countries.

Second, China has emerged from a period of revolutionary struggle and ideological leaders during which it confronted the West into a period of sober technocratic development aligned with the West.

Third, the U.S. underwent a severe reaction to the loss of the Vietnam War, during which it convinced itself temporarily that it had few interests worth defending in the third world and that previous policies had been based upon an exaggerated fear of the Soviet Union. During the post-Vietnam period, 1975-80, the U.S. built policy upon a set of assumptions which reflected loss of the Vietnam War, a profound desire to avoid any future risks of third world fighting, and a desire to believe that no such risks were necessary. The U.S. assumed that the Soviet Union would readily reciprocate U.S. arms restraint, and on the basis on that assumption promoted a series of arms control policies in the areas of strategic nuclear weapons, conventional arms transfers, nuclear non-proliferation, Indian Ocean arms control, and others, which has few parallels in American history. It also assumed that the Soviet Union would reciprocate U.S. restraint in the third world, and, accordingly, ceased to intervene with military force or massive political-economic action in such situations as Nicaragua (compare Guatemala in the 1950s). It assumed that arms control could be the center of foreign policy despite rapidly rising political tensions over Soviet behavior in key third world countries. It

assumed that Soviet nuclear parity and conventional superiority would have little political impact. Finally, it assumed that a policy of equidistance between China and the Soviet Union was possible in an era when the Soviet Union was aggressively expanding its influence and China was looking inward toward domestic economic development.

The Soviet Union's perceptions were quite different. The Soviet Union perceived Western weakness rather than Western restraint; it perceived post-Vietnam morale and a general capitalist loss of vitality and, hence, an opportunity for expansion. Soviet analysts held that military power should yield the Soviet Union rising diplomatic weight. Whereas the West saw parity as creating a situation in which neither great power need fear the other, and therefore both could become less interventionist, the Soviet Union perceived its new parity as properly entitling the Soviet Union to become as interventionist as the West had been at the peak of American influence. The Soviet Union assumed that detente would constrain Sino-American rapprochement, that it would yield a vast flow of Western technology, and that it would yield opportunities for expansion in the third world without triggering a Soviet-American crisis. Hence, the Soviet Union pursued its military buildup and took full advantage of the new opportunities that arose in Angola, Ethiopia and Afghanistan. It argued that Western objections to these activities reflected an unwillingness of the West to accept the Soviet Union as a diplomatic equal, and it objected violently when Sino-American rapprochement accelerated despite detente with the Soviet Union. These Soviet views led to behavior which discredited the optimistic assumptions of U.S. foreign policy.

China during this period persisted in asserting its right to independence from the Soviet Union and its right to be considered an equal of the Soviet

Union in the world communist movement. Likewise, China continued its policy of refraining from massive foreign involvements in order to concentrate on building China's domestic strength. But it adopted in the 1970s a fundamental change of course away from its previous emphasis upon hyper-centralized administration, hyper-egalitarian policies toward education, and emphasis on ideological rather than material motivations for work and development. This period cast away the outdated fears of Western domination which had led to extreme self-reliance in economic policy. Recognizing that China was now sufficiently strong to prevent foreign use of investments and loans to manipulate China's politics, China undertook an opening of its economy to the rest of the world. The premises of China's policy were that domestic economic development required Western technology and financing and, moreover, that development required peace, which was only obtainable by using the power of the West to block Soviet expansion. The result was a policy which remained anti-Soviet but became far less anxious about close relationships with Western countries.

China in this period underwent an extraordinary diplomatic transformation. China's leaders, Deng Xiaoping and Hua Guofeng, traveled to Japan, the U.S., Southeast Asia, and Western Europe to cement political ties; never in China's history had its leaders journeyed abroad in this fashion to cement political alliances. China supported the non-communist Association of Southeast Asian Nations, called for strengthening NATO, and supported U.S. bases in Japan, the Philippines and elsewhere. China signed a friendship treaty with Japan and initiated a series of trade and financial relationships with all the Western countries. It normalized relations with the U.S. and allowed itself to become increasingly dependent on Western technology. China supported

development and deployment of the B-1 bomber and the neutron bomb. Deng Xiaoping summarized this new phase of China's diplomacy when he declared that China was an honorary member of NATO.

The three major powers' policies were so radically different from each other that some kind of breakdown was inevitable. Breakdown came at the end of the decade. First, the U.S. and Japanese policies of maintaining diplomatic equidistance between the Soviet Union and China had been strained by the mid-1970s but collapsed completely by 1980. China's abstention from efforts to manipulate potential domestic Japanese political instabilities, and its acceptance of Japan's basic military and political policies, contrasted sharply with increasingly threatening Soviet behavior and with the Soviet military buildup in the vicinity of Japan. China's willingness to compromise on territorial disputes -- for instance, over the Senkaku Islands -- contrasted sharply with Soviet unwillingness to deal with Japan's claims to four disputed northern islands. China's wholehearted embrace of the U.S. and its allies, politically and militarily as well as economically, contrasted quite sharply with rising Soviet challenges to Western positions in the third world and in Europe.

In the second key element of the breakdown, the Carter administration's arms control policies collapsed. The proposal to demilitarize the Indian Ocean confronted Soviet use of the Indian Ocean to support military operations in Ethiopia. U.S. restraint in conventional arms transfers became an opportunity for the Soviet Union to gain political influence through arms transfers. Congressional opinion turned against SALT II because SALT II had become a symbol of detente and of Soviet-American cooperation. A massive arms race developed as NATO responded to the Soviet Union's earlier buildup by committing itself

to a Long-Term Defense Program comprising annual real increases in defense budgets of at least 3%. Contrary to U.S. expectations that the shifting military balance would have little political consequence, the U.S.S.R.'s military ability to operate in Afghanistan, Angola, and Ethiopia inclined South Asian, Middle Eastern and African states increasingly to defer to Soviet power. Soviet conventional and nuclear superiority in Europe triggered a new West European sensitivity to Soviet interests along with a European drive to obtain modern military technologies such as the neutron bomb. The emerging Western military buildup created a situation where, although the Soviet Union will possess local superiority in Western Europe and the Middle East for most of the 1980s, it will likely lose that superiority by the end of the decade. The result is a dangerous incentive to take advantage of opportunities while they last, a situation which Western military specialists have come to call the "window of opportunity."

These results showed the early Carter administration policies to be naive. They triggered a transformation of Carter administration policies and facilitated the rise of an extremely anti-Soviet presidential candidate, Ronald Reagan. The Soviet Union is persisting in its confrontational policies at a time when Soviet economic growth is less and less capable of sustaining large annual rises in defense expenditures. Moreover, as a result of the breakdown of the equidistance policies of Japan and the U.S., the Soviets face an entente of the U.S., Japan, China, Southeast Asia, key Muslim countries, and Western Europe. Seldom in history has any power so ham-handedly provoked such a formidable coalition of opponents.

All of these trends were emerging prior to Afghanistan, but the Soviet invasion of Afghanistan, potentially a rather minor episode in world history,

became the precipitant of major policy transformations. With the invasion of Afghanistan, which was the first massive use of Soviet military force outside the Yalta area of Eastern Europe since World War II, the Soviet Union abandoned the 1970s' priority for Soviet-American detente and arms control. It revealed a new priority for the translation of military power into political influence even at the risk, hitherto unthinkable, of confrontation with the U.S. For the first time since the Berlin crisis in the Kennedy years, the Soviet Union was willing to endanger the stability of its relationship with the U.S. in order to expand its region of hegemony. Suddenly, the U.S. abandoned its policy of equidistance even to the extent of selling China militarily useful technology and planning an exchange of military officers with China. The U.S. deferred ratification of the SALT II treaty, not because of its content but because it was a central symbol of a more cooperative relationship with the Soviet Union. The U.S. also enforced a boycott of the Moscow Olympics and embargoes on certain Soviet-bound exports, thus attacking central political and economic aspects of detente.

Only China's policies were confirmed as sound by Afghanistan. Earlier, the Chinese had wavered marginally in their determination to align with the West and confront the Soviet Union. Concerned that the U.S. might be using them temporarily as a pawn in a game with the Soviet Union, and convinced that there might be benefits from reducing tensions with the Soviet Union, China entered into negotiations with the Russians in the fall of 1979. Although no major policy transformations were at any time expected from these talks, a marginal easing of tensions seemed quite possible. The Soviet invasion of Afghanistan, coming on top of the Soviet support of Vietnamese subjugation of Laos and Cambodia, deferred such diplomatic aspirations for the indefinite future.

The result is a seemingly inexorable alignment of China with the West and a polarizing of positions between the Soviet Union and the West. To some extent, each of the three powers has resisted these trends. China would prefer somewhat reduced tensions with the Soviet Union and somewhat reduced dependence upon the U.S., particularly for military power. The U.S., Japan and (particularly) Western Europe would still strongly prefer an equidistant relationship between China and the Soviet Union. The Soviet Union would prefer a continuation of detente. But the Soviet Union prefers third world gains without detente to detente without the third world gains. The West prefers alignment with China to acceptance of Soviet expansionism. And China prefers limited dependence on the West to economic stagnation, military vulnerability, and political subordination to the Soviet Union.

The result is a rising level of great power conflict during a period of third world instability, of Soviet incentives to take third world opportunities while they last, and of U.S. fears that appeasement could become disastrous. Instabilities in the Middle East, South Asia, Yugoslavia and Korea could become flash points for great power confrontation. Vietnam and Afghanistan remain potential flash points for Sino-Soviet confrontation: for instance, Vietnam might launch an offensive against Cambodia or Thailand, which could trigger a Chinese offensive against Vietnam, which in turn could trigger Sino-Soviet border conflict. Major power confrontations are by no means inevitable, but the risk is far greater than it has been since the Cuban Missile Crisis of 1962.

The Communist World

While the industrial democracies have experienced economic weakness and

alliance friction, the communist world has been experiencing similar phenomena.

Following the death of Mao Tse-tung, the Soviet Union sought to improve relations with China. Press denunciations of China ceased, government-to-government relations were improved, and border negotiations were resumed. However, the Soviet Union withdrew none of its troops from border regions, nor did it give any indication of willingness to treat China as an equal in the world communist movement. These latter issues were China's greatest concerns. Although the two sides did sign a new river navigation agreement and show greater amiability on some diplomatic occasions, China stepped up its anti-Soviet propaganda and Deng Xiaoping announced that the Sino-Soviet alliance of 1950 would be repudiated after it expired in 1980. Soviet activities in Indochina and Afghanistan were viewed by the Chinese as efforts to encircle China. Primarily to hinder such encirclement, the Chinese "punished" Vietnam in early 1979 for its invasion of Cambodia. The Soviet Union subsequently threatened to invade China if China were to invade Vietnam again. As noted earlier, negotiations between China and the Soviet Union were resumed in the fall of 1979, but any possibility of early rapprochement between the two powers disappeared with the Soviet invasion of Afghanistan.

Elsewhere in the communist world, diplomatic relations have been chaotic. Prior to his death, Yugoslavia's Tito devoted much of his energy to a global series of diplomatic visits designed to ensure Yugoslav independence from the Soviet Union. Romania's military forces continued to face primarily toward its Soviet ally rather than toward the Western enemy. Romania has refused

Soviet demands to increase its military budget, to accept greater integration into the Warsaw Pact, and to allow Soviet maneuvers on Romanian territory. Poland's attitude toward the Soviet Union is increasingly nationalistic. North Korea is at odds with both the Soviet Union and China. In Southeast Asia, all the non-communist countries are at peace but all the communist countries are fighting each other to some extent. The Soviet Union and its allies are bogged down in fighting in Afghanistan, Indochina and Ethiopia. Very real Soviet successes in Angola and Mozambique could crumble very quickly, since both of those regimes seem increasingly enticed by the economic advantages of dealing with the West.

In short, although the West has severe problems, the communist world's divisions are much more fundamental. Moreover, the domestic difficulties of the Soviet Union and the Warsaw Pact countries may be far deeper than those of the Western countries.

The Soviet Union and Eastern Europe*

The Soviet Union is emerging from a Brezhnev era which has yielded prosperity by Soviet standards (with regular growth of 5 1/2-6% per annum), extraordinary military power, and political stability. However, it is now entering a period of both economic and political problems. The Soviet Union has exhausted opportunities for extensive growth; it faces diminishing returns in extension of agriculture, together with an across-the-board decline in labor input. Its lag in technology is roughly the same as it was 25 years ago. Its population growth is heavily concentrated among poor, uneducated,

*The following two paragraphs are drawn heavily from research by Seweryn Bialer.

middle Asians. It faces an energy crunch, with output declining to around 7.5 million barrels per day instead of 12 million barrels per day. Accustomed to increasing consumer goods 4% per year, investment 4% per year, and defense 4-5% per year, the Soviet Union now faces an economy growing only 2-3% per year.

This economic time of troubles coincides with a period of political transition. Brezhnev will soon pass from the scene. Equally important, a majority of the Council of Ministers will inevitably pass from the scene in the next few years. The coincidence of a great economic change and a great political change carries potential political consequences as great as the similar coincidences in Brazil and South Korea. The new generation of leaders will be an entirely different breed, drawn from professionals rather than from former peasants and workers. The rise of new leadership groups in a period of economic scarcity implies an era of ambitious groups fighting over great issues. It implies controversies over the military budget during a period when U.S.-Soviet relations create an incentive to keep military spending high. The new energy problems of the Soviet Union imply for the first time an incentive for economic imperialism, pressing on the Middle East for energy, on Norway for territorial concessions that will determine offshore oil drilling rights, and on Western Europe to ensure barter for superior Western European technology. All of this adds up to a period of greater struggle, greater authoritarianism, and greater uncertainty.

Eastern Europe faces a similar time of troubles. Yugoslavia is in the midst of both a succession crisis and economic difficulties. Elsewhere in Eastern Europe, worker demands led to strenuous efforts to raise wages by

raising productivity. The rises in productivity were to be assured by importing technology from the West, and that technology was to be paid for by exporting its products. However, worker productivity did not rise in accordance with expectations, and the West's stagflation reduced its desire to purchase East European goods. The result has been a clash of rising worker expectations with financial difficulties. Such clashes, familiar in Eastern Europe, will likely escalate due to sociological trends. The communist parties, which immediately after World War II were integrated with the working class, have in the intervening generation become a white collar bureaucracy. Moreover, the workers have changed from a relatively small number of poorly educated and poorly organized people into a large number of relatively well-educated and organizable people. Further, the workers of several East European countries have increasingly been exposed to contact with Western European societies. The result is emerging class consciousness among workers who feel economically deprived and politically repressed and, moreover, have nationalistic, anti-Soviet inclinations.

These trends have been most pronounced in Poland, where in July of 1976, efforts to extricate the country from a difficult economic situation led the regime to raise food prices and thereby triggered severe workers riots. These worker riots created a situation in which the communist government was unable to suppress the workers' movement completely and was forced into long-term bargaining with organized workers -- an unprecedented development in a communist society. Subsequently, dissident groups multiplied, dissident newspapers came to number more than 100, "free" universities were founded, Eastern Europe's first rural dissident movement appeared, and the first clandestine meetings between dissident groups from different East European

countries occurred on Poland's borders. The Polish political situation remained sufficiently delicate that the regime was unable to deal with its economic problems and by 1980 faced a financial crisis.

The difficulties of Poland, with its attendant risks of a social explosion, are harbingers of the future of Eastern Europe. Similar financial economic difficulties, worker demands, worker protests, and emerging nationalism, are beginning to appear elsewhere in the region. These trends ensure that the 1980s will see some sequel to the Hungarian confrontation of 1956 and the Czech confrontation of 1968. The difference is that in Poland it is possible to imagine the social explosion being followed by Soviet intervention and thereafter by warfare in which the Polish army actually fights Soviet forces. Poland is far larger and more nationalistic than Czechoslovakia. All of this makes Eastern Europe potentially a competitor of the Middle East as the most explosive region of the world in the 1980s.

While Soviet policy appears strong and successful in the perspective of a press which tends to emphasize Western defeats, Soviet foreign policy actually has as many problems as its domestic policies. During the 1970s, the Soviet Union made significant gains in Angola, Mozambique, Afghanistan and Ethiopia. However, these were at least matched by major defeats in Egypt, the Sudan, and Nigeria, a more important group of countries. Through at least the summer of 1980, the Soviet defeat in Zimbabwe was total, with the new black government refusing to allow the Soviet Union or its Warsaw Pact allies to send ambassadors before the end of the year and with the British training the new army. While NATO has experienced severe divisiveness and significant social problems, particularly in the southern tier of Portugal, Italy, Greece, and Turkey, those problems do not appear to be either as explosive or as inexor-

ably fatal as the Soviet Union's problems in Eastern Europe. The West has no alliance problem which compares with Soviet concerns about the country which was formerly its greatest ally, namely, the People's Republic of China.

In Southeast Asia, the Soviet Union won a major victory in Vietnam, but earlier suffered a major defeat in Indonesia; while the future of Southeast Asia is difficult to foretell, non-communist Southeast Asia is at peace and is the world's fastest economic growing region, whereas all of Indochina is at war and is retrogressing economically.

In South Asia, the Soviet invasion of Afghanistan has made the West appear helpless, and America's excessively hasty support of Pakistan has alleviated some of the damage the Soviet invasion could have done to Indo-Soviet relations, but it is far too early to say whether the Soviet invasion will prove a long-term benefit or a long-term drain; among the costs of the Soviet invasion are the anger of the Muslim world, repudiation of an important Soviet foreign policy by most of the third world, loss of any opportunity to reduce conflict with China, weakening of Cuba's role in the third world, and reinforcement of the opposition of all other big powers to Soviet expansion.

In the Middle East, the Soviet invasion of Afghanistan, its buildup on the Iranian border, and its access to military facilities in Ethiopia and elsewhere have provided it with at least a temporary conventional military superiority in much of the region. The Iranian revolution has severely damaged the West both diplomatically and through its effect on oil supplies and oil prices. On the other hand, the Soviet Union has not necessarily gained from the Iranian revolution. Moreover, the Soviet diplomatic position in the Middle East is not noticeably better than it was in 1970. Since 1970,

the Soviet Union has been expelled from Egypt, and since the mid-1970s it has been excluded from all major diplomatic negotiations. It has significant diplomatic positions in Iraq and Syria, but those allies have frequently proved unfaithful; Iraq frequently executes members of the pro-Soviet Communist Party, and periodically relations between the Soviet Union and its principal Middle East supporters become so difficult the Soviets cease to deliver military supplies.

Soviet activities in the third world have gained a reputation for military strength, but they have also had negative diplomatic consequences. As a result of pressure on Japan, widespread Soviet use of the Cubans as mercenaries, and Soviet military engagements in Indochina, Ethiopia, and Afghanistan, much of the world has formed an effective anti-Soviet entente that includes all other significant world powers. Perhaps ultimately more important, the Soviet Union has suffered a worldwide ideological defeat of unprecedented proportion for a nation with its military power. In the 1950s and early 1960s, liberals and leftists throughout much of the world frequently looked up to the Soviet Union as an alternative to the Western model of the good society. Throughout Latin America there were pro-Soviet guerrilla organizations. Today, no major thinker in Western Europe, the U.S., Latin America, or non-communist Southeast Asia looks to the Soviet Union as a model of the good society. There are many guerrilla movements in the world, but they repudiate the Soviet model. There are many Marxists even in Western Europe (see the Red Brigades), but the image those Marxists and radicals have of the Soviet Union is the same as the conservative image: a repressive, bureaucratic polity whose economic achievements are largely confined to the military sector.

The Soviet Union therefore confronts the West with extraordinary military power, but without the ideological influence, cultural attractiveness, economic enticements, or diplomatic magnetism appropriate to a great power. The Soviet Union feels very strong when it thinks about its military situation, but feels very vulnerable when it considers its diplomatic and economic positions. In response to its diplomatic and economic weakness, and to the clearly perceived weakness of its Eastern European empire, the Soviet Union neurotically builds more military strength. This makes it more dangerous in the short run, unless the West makes matching military efforts, but it further weakens the long-run prospects of the Soviet Union. The West has good reason to obey Mao's dictum to despise the enemy strategically but to respect him tactically. The long-run advantages of the West are no help if a conflict comes in the short run, and short-run conflicts are possible over Iran, Pakistan, Indochina, or South Korea. Henry Kissinger once pointed out to a class that Carthage had all the long-run economic and social advantages over Rome; the problem was that Rome got to Carthage before Carthage got to the long run.

China

Shortly after Mao Tse-tung's death, China entered into a vast new economic development program. The economic program rests on three pillars: a new emphasis on domestic economic incentives; a relative opening of the economy to foreign trade, loans, and investments; and a diplomatic-economic alignment with the West. China has undergone a series of cycles during which milder versions of such policies have been successively emphasized and repudiated. Historically, the periods of repudiation, namely, the Great Leap Forward of 1958-'81 and the Cultural Revolution of 1966-'68, have been more noted than the "liberal" periods. The question is whether China is now simply undergoing another phase of the cycle or whether China is set on a long-term course.

There is a significant weight of evidence that the present economic development program may simply be part of the cycle. The past phases of the cycle give rise to expectations that the same forces might be at work again. The extent to which recent development programs seem to have depended upon one man, Deng Xiaoping, who is in his mid-70s, gives the program an image of frailty. Episodes such as the brief warfare with Vietnam and key economic shortages, particularly the shortage of trained economic managers, raise doubts as to whether China has the resources to carry through its programs.

On the other hand, there is great evidence that the cycle may be ending and the vast development programs may endure. Deng Xiaoping inspires great popular enthusiasm. Once workers and peasants have been offered incentives on a massive scale, it will probably prove difficult to turn the clock back. Deng Xiaoping possesses an extremely strong power base in the military and in the Communist Party as well as in the government. He controls the Organiza-

tion Department of the Communist Party, which passes on the ideological correctness, performance, and promotions of all Communist Party members. The past downturns in the cycle, moreover, depended upon the overwhelming personality of Mao Tse-tung, who was able to mobilize students, the media, old guerrilla warriors and a few others into a force sufficient to devastate the Communist Party during the Cultural Revolution. It is difficult to imagine any other individual wielding such inauspicious material into an overpowering political force. More briefly, Deng Xiaoping faces no overwhelming challenger.

Thus, there are forces both for persistence and for failure, but on balance the forces for persistence seem somewhat stronger. Moreover, China's long-term prospects, assuming persistence of the economic program appear more favorable than those of the Soviet Union. China's basic strategy is economic and popular, whereas the Soviet Union's basic strategy is military. China's basic attitude toward the peasants who are the majority of its population is alliance with them, whereas Stalin's basic attitude toward the farmers was to make war upon them and defeat them -- a policy for which the Soviet Union has paid in agricultural production ever since. The Soviet Union emphasizes heavy industry, whereas China emphasizes light and medium industry. China is more oriented toward consumers than is the Soviet Union, as can be seen by comparing China's well-stocked shops and short lines with the Soviet Union's shortages and long lines. China is willing to undertake a major transformation of its political management, including a purge of much of the elite, in order to attain economic success, whereas the Soviet Union seems determined to maintain the position of a conservative elite at almost any cost. China has focused consistently inward on domestic economic development, whereas for

much of its history the Soviet Union has focused outward on foreign adventures. In all these respects China's policy is more likely to lead to economic success than the Soviet Union's.

On balance, China's policies are still something of a gamble. They can be defeated by war, by unmet expectations, by domestic political reaction against foreigners, and by lack of foreign exchange. They can also be defeated by what may be the world's most ponderous bureaucracy. But the cohesion of China's society, the organizational qualities that Chinese civilization has demonstrated over many centuries, the flexibility of its leadership, and the benevolent attitude of the West create on balance reasonable prospects of long-term success.

Japan

Japan has enjoyed three extraordinary decades of economic dynamism and political stability. The political stability has held in international alignments as well as domestic rule, and the economic dynamism has proved as consequential for Japan's neighbors as for Japan itself.

Periodically, some of us become concerned about potential instability in Japan. The Liberal Democratic Party (LDP) has ruled for generations and has acquired some of the same problems that the Christian Democratic Party of Italy and many other parties that have ruled for long periods of time tend to experience. These problems include corruption, dominance by older men, and lack of ability to generate popular excitement. As a result of these problems, the Japanese ruling party has in recent years experienced the loss of its majority in both the Upper House and the Lower House. However, it has quickly rebounded by adding to its rosters the necessary number of defectors

from other parties or, in the case of the 1980 election after Prime Minister Ohira's death, by actually increasing its share of the popular vote. The declining electoral support of the Party is a long-term trend, based on such deep social trends as the declining farm population of the nation. These trends could proceed through the 1980s to the point where the Liberal Democratic Party or some of its factions are forced into a coalition government. However, this does not imply political instability. While the LDP has been declining, the proportion of the electorate supporting relatively conservative policies has been increasing. In particular, the small Democratic Socialist Party supports a relatively status quo economic and foreign policy program, the Buddhist Komeito Party supports most basic lines of current policy, and the right wing of the Japan Socialist Party could be persuaded to split off and join a conservative coalition. Thus, while the LDP will probably encounter some difficult times in the future, the future of conservative politics in Japan seems assured.

In foreign policy, there are numerous pressures to force the Japanese out of their traditional posture of emphasis on economics above all else and of trying to maintain a balanced friendship with all parties to the various world conflicts. As Japan has become a larger actor in the world economy, it has been drawn into global political issues against its own will. The pressures to politicize Japan's policies became particularly evident after the Nixon shocks of the early 1970s. The sudden U.S. move towards China, the sudden devaluation of the U.S. dollar, and the Nixon administration's limitation of soybean exports forced Japan to take an independent look at its China policy and to question the steadiness of American policies which strongly affect Japan. The OPEC oil embargo and subsequent Arab pressures which forced Japan

to change its Middle East policy constituted a further signal that Japan was perceived as a significant political actor and would be forced to take stands on important issues, even when those issues arose half a world away. The Carter administration's early commitment to withdraw U.S. forces from Korea frightened the Japanese and forced them to take a more overt stand on a regional military issue than they had taken for many years. U.S. pressures on the Japanese, first to build breeder reactors (during the Ford administration) and later to abandon the costly reprocessing plant being built in order to support that nuclear strategy, drew the Japanese into global debates over non-proliferation policy. Soviet threats in connection with Japan's negotiation of a friendship treaty with China highlighted the dangerous situation within which Japan functions, and a Soviet military build-up on Kurile Islands claimed by Japan showed that Japan cannot take its military security for granted. Finally, a general insecurity about the steadiness and wisdom of the U.S., which originated in the Nixon shocks and the Carter administration policies on Korea, human rights, non-proliferation, international economic, regional naval issues, and the Soviet-American strategic balance, enhanced the tendency for the Japanese to feel that they could not simply tie their policies to those of the U.S. and that they must make active, relatively independent policy decisions.

The result of all these pressures has been a slowly but steadily rising Japanese assertiveness. Prime Minister Fukuda proclaimed a doctrine for Japanese policy toward Southeast Asia for the first time; the contents of the doctrine were somewhat obscure, but its very existence was a historic breakthrough. Support for a larger Japanese defense budget began to rise during the early Carter administration, due to the threat of rising Soviet naval power

and to changes in the global strategic balance which favored the Soviet Union, as well as to the Carter administration's decision to withdraw troops from Korea. After the disputes with the Nixon and Carter administrations, the Japanese adopted a new diplomatic tone in their relationship with the U.S., speaking much more firmly and sometimes even patronizingly to their principal ally. The Japanese decided to resist Soviet pressures to renounce the signature of a friendship treaty with China, but also to resist China's efforts to include in the treaty a strongly worded "anti-hegemony clause" directly against the U.S.S.R. Japan refused to enter into further long-range economic agreements with the Soviet Union until territorial disputes were settled. It periodically denied aid to Vietnam on political grounds and took a strong stand against the Soviet invasion of Afghanistan. Prime Minister Ohira and his Foreign Minister, Saburo Okita, advocated the concept of an organized Pacific Community designed to enhance among the nations of Northeast Asia, Southeast Asia, and North America. Recognition of the increasingly important role Japan plays in the world has come through a general acknowledgement in recent years that Japan has a vital interest in global political economic stability and must be prepared to pay some costs to serve that interest. Japan's more active role has also manifested through a rising concern over Japan's military weakness, which culminated in a 1980 commission report to the Prime Minister indicating that Japan should raise its defense budget. However, the slowness with which these very important trends operate is indicated in that Japan's defense budget remains below 1% of GNP, as compared with the 4% typical of West European countries and the 6% recently characteristic of the U.S.

The Pacific Basin

The non-communist countries of Northeast and Southeast Asia represent the fastest growing and most dynamic region of the world economy. During the 1970s, one group of countries (Taiwan, Hong Kong, Singapore, South Korea) averaged 10% annual GNP growth, and the non-communist countries of Pacific Asia as a group averaged over 6%. China averaged a similar rate of growth and seems to be increasing its growth rate. The overall result for the region is economic dynamism, affecting nearly half of the human race, which has no parallel in human history. The results of this dynamism are numerous. The trade of North and South America, once predominately oriented across the Atlantic, is now more intense across the Pacific. The social strains in the various countries of Pacific Asia emerge more rapidly than elsewhere in the region and thus necessitate more rapid adjustments than in some other regions. The success of economic growth programs and the rising cost of warfare have stimulated an inward-looking focus on domestic development which has replaced the former predatory, outward-looking attitude of most of the countries of the region, except in Indochina. A disproportionate share of the challenges and strains in the international economic order are derived from the dynamism of the noncommunist Pacific Asian countries: monetary problems tend to arise from the huge surpluses that Japan, Korea, Taiwan, and other countries pile up; protectionist forces are accelerated by the unusual growth rates and efficiency of the Pacific Asian economies; technological challenges increasingly arise from this region; and so forth.

The economic development of Pacific Asia has proceeded according to highly predictable patterns and sequences. Each country begins by exporting raw materials (if it has any) and cheap textiles, then graduates into more ex-

pensive textiles, then consumer electronics (televisions, cameras), then heavy industry (steel, ships, petrochemicals, automobiles) and ultimately computers.

This particular ladder of development was first climbed by Japan, which grew ^{سريع} so rapidly that labor became scarce and labor costs rose very quickly. Meanwhile, American firms which were losing market share to Japan discovered that they could move into South Korea, Taiwan, Singapore, and Hong Kong to manufacture products with labor which cost less than Japan's but worked with similar efficiency. Soon Japanese firms in the cheap textiles business were losing market shares to U.S. firms based in these other countries, and the Japanese forced to relocate their own operations in those countries. This process repeated itself when labor costs rose in the small countries near Japan. There was another wave of southward movement of textile industries to Thailand, Malaysia, the Phillipines and Indonesia. The whole process repeated itself for consumer electronics, which are now very strong in South Korea, Taiwan, Hong Kong, and Singapore, but are increasingly being forced to move southward. The cycle repeats itself again in heavy industry, which is still in the process of moving from Japan and the U.S. into Hong Kong, Taiwan, Korea and Singapore.

In the slower growing world economy of the 1980s, these waves of rapid, export-oriented growth caused greater strains between the countries at the top of the ladder, namely the U.S., Western Europe, Japan, and those seeking to move rapidly up the ladder from below. If the U.S. computer industry is successfully challenged by Japan, it is not clear where the U.S. would find another upward rung of the ladder. Japan finds it difficult to adjust to the rising challenge of South Korean and Taiwanese steel firms. Taiwan and South Korea find it difficult to keep ahead of the increasing competition from the

Philippines and Thailand in textile manufacturing. China's entry onto the ladder challenges the ability of countries like Indonesia to maintain their existing place on the ladder and, because it will be a long time before Chinese labor costs rise as a result of labor shortages, it will be difficult for countries like Sri Lanka, Burma and Bangladesh to succeed in current efforts to establish themselves on the bottom rung of the ladder.

Meanwhile, however, the extraordinary economic successes of the Pacific countries have fundamentally influenced the development of North-South relationships. Most of the developing countries, aside from Brazil, whose economic successes have led to shared interests with the rich countries (and therefore to foot-dragging on such third world policies as debt cancellations), have been from Pacific Asia. The example of the Pacific Asian countries demonstrates that the countries which cooperate with the Northern banks, work out mutually beneficial relationships with the multinational corporations, concentrate on administrative efficiency and labor training rather than raw material prices, and accept a high degree of interdependence with the established economic system, are more likely to succeed than countries which turn inward or adopt a posture with the West. Frequently the result has been that third world countries' rhetoric has continued along the lines of demands for a new international economic order, but their policies have increasingly lined up with the more conservative and more successful policies of the Pacific Asian countries.

Continuation of the economic takeoff of Pacific Asian countries is likely, but it is challenged by major new developments. First, the rise in oil prices strikes particularly hard at the economies of this region, which, except for Indonesia, are particularly dependent on imported energy and ex-

ceptionally vulnerable to energy source disruption -- because their rapid growth means rapid increases in demand for energy and for petroleum-based fertilizer. Second, the slowdown of the Western economies, and the resulting crowding of the development ladder, have created greater pressure for protectionism among the Western economies and, in particular, have led to export quotas on textiles, steel, televisions, and other products. Third, as noted, the entry of China onto the ladder, while probably a favorable event for the world economy and for world politics, greatly exacerbates the problem of crowding on the ladder.

Fourth, the extraordinary economic successes of some of the North East Asian countries, which have grown at rates in excess of 10% per year, eventually create political problems. While South Korea and Taiwan do not exhibit the cultural strains of the Islamic world, the growth of their economies eventually challenges both their political and their administrative institutions. Success creates large government, military, business, labor, and educational pressure groups, which tend to demand more open politics. Dynamic, diversified economies tend to require more decentralized management. But all of these economies are directed by political systems created for highly centralized, authoritarian management in response to external military threats and domestic economic problems. The pressures for political change eventually become as inexorable as the pressures for movement from textiles into consumer electronics, but the political change of phase is much more difficult than the economic one. Finally, whereas the Northeast Asian countries (Japan, South Korea, Taiwan, Hong Kong, Singapore) have typically addressed the problems of income distribution and economic nationalism early in their economic takeoffs, all have avoided the profound cultural strains

typical of the Islamic world. The Southeast Asian countries typically have not confronted these issues and therefore achieve somewhat lower rates of economic growth and are always in danger of political disruption of their rapid growth.

As a result of all these trends, Pacific Asia is the region of greatest opportunities in the third world but also an area of rapid changes of economic structure and rapid emergence of social problems.

South Asia

Since before the time of its independence, South Asia has contained the greatest concentration of human misery upon the globe. While there are other countries, particularly in Africa, which are as poor as the South Asian countries, there are none whose populations are so large in absolute numbers or in relation to available land and other resources. Partly because of the poverty and the large numbers, the sub-continent has been subject to periodic instability. First, after independence, Hindu-Muslim violence led to the separation of Pakistan from India. Subsequently, there were conflicts between India and Pakistan over Kashmir. Because Pakistan was a divided state, and because West Pakistan chose to exploit East Pakistan, there was a violent separation of Pakistan into Pakistan and Bangladesh. The result is a group of states, comprising Pakistan, Bangladesh, Afghanistan, Sri Lanka, and Burma, which share common cultural characteristics, common borders, and a high proportion of the world's most severe poverty. All have tended until recently toward a rather inward-looking, culturally isolated pattern of development which has greatly contributed to their poverty. All are neutralist or, until recently, slightly left-leaning in their international politics.

India has been the large stable core of South Asia. Initially, India experienced representative democracy under the rule of a nationwide Congress Party which bound the country together. The Congress Party-dominated democratic system was always threatened by India's extreme poverty and by the regime's inability to deal with social inequality. Moreover, the unity of the Congress Party was essentially a residual of the national unity required to break out from colonialism. The period of stable democracy ended when Mrs. Gandhi declared emergency rule and instituted a series of dictatorial measures, such as censorship and jailing of much of the opposition. Following the example of authoritarian leaders in many Pacific Asian states, she attempted to address the problems of economic growth and overpopulation through dictatorial methods. However, her methods, which included such measures as forced sterilization of large numbers of Indian men, proved so unpopular that she eventually held an election and accepted electoral defeat. Her role divided the Congress Party and cost it a great deal of popular support and therefore ended the Congress Party-dominated period of Indian politics. The Janata Party which succeeded was, however, a motley coalition which was never able to define and implement a coherent policy. It fell and was replaced by a coalition government which ruled for only a few weeks. Mrs. Gandhi then returned to power by democratic election, but the new Indian democracy was based on the rule of a single person, Indira Gandhi, rather than upon a broad-based national institution. The other principal source of continuity in Indian politics was familial, but the rule of Prime Minister Nehru's descendents was terminated when Mrs. Gandhi's son, Sanjay, was killed in a 1980 airplane accident.

The decline of Indian politics from rule by a broad-based institution to rule by a single individual is a major sign of long-term decay. It is accompanied by gradually increasing violence between castes and ethnic groups, which indicates a general loss of social cohesion and a weakening of central authority. However, these trends may operate very slowly, and India may remain relatively stable for a considerable number of years. This is particularly true because India has a relatively effective (although extraordinarily ponderous) national bureaucracy, an effective national army, and a broad-based educational, managerial and scientific elite. Moreover, as India enters the 1980s, its foreign exchange position is far stronger than has been typical in the past, and a series of good harvests has at least temporarily alleviated India's previously severe food shortages.

Among the smaller countries of South Asia, the earlier appearance of cultural and developmental homogeneity has given way to sharply diverging paths. Afghanistan and Pakistan, one nominally a left-wing government and the other nominally a right-wing government, have successfully avoided development and stability. They have failed to bring literacy and agricultural development to their populations, and the governments rank among the world's most disorganized, divided, corrupt, and unpopular. The Afghan government's instability culminated in the Soviet invasion of December 1979, whose results are in doubt. Pakistan was probably saved from a major social revolution by fear of Soviet activity in Afghanistan.

The other small countries of South Asia have taken a different course. The People's Republic of Bangladesh, once an inward-looking leftist regime, and Sri Lanka, once a relatively left-leaning leader of the third world movement, are attempting to climb the Pacific Basin development ladder. In doing

so, they have utilized the principal social technologies developed in Taiwan, South Korea, and Singapore: devaluation of their currencies, some opening of their economies to foreign trade, tariff-free export processing zones, and systematic programs to spur foreign investment and export activities. Both have chosen to emphasize literacy programs, agricultural development programs, health programs, and other popular welfare measures, rather than cultivating an elite and seeking heavy industry as India and to some extent Pakistan have done. Burma is also moving gradually toward an opening of its economy on the Pacific Basin model but is moving so slowly that the changes are nearly imperceptible. The results of these auspicious programs are in doubt, however, because of the crowding of the Pacific Basin development ladder caused by China's entry onto the ladder and by the slowing of the world economy with its consequent rise in Western protectionism.

Both the prospects of moderate success in Sri Lanka, and the momentum of the Indian economy, even in the face of very gradual social deterioration, offer some prospects for fruitful investment. So far, however, South Asia offers no counterparts to the thriving economies of Singapore, Thailand, Brazil, and Nigeria, which have occurred in other regions of the world.

The Middle East

The Middle East is traditionally a major focus of world conflict for several reasons: its oil wealth, its geographical location (which makes it a crossroads for world traffic), and the political weakness of most states in the region during most of recent history. The conditions persist and may be expected to do so for the foreseeable future. These conditions for conflict support a complex system of tensions along the following lines:

Israel vs. Arab Countries

Palestine Liberation Organization vs. Established States

Radical vs. Conservative Politics

Arab Unity vs. Nationalism

Western vs. Soviet Power

The Arab-Israeli conflict has evolved from a situation three decades ago, namely a very weak Israel facing more stable and more established Arab states through several wars, which Israel won, to the present situation which is marked for the first time by clearly decisive Israeli military superiority and the clear political inability of the Arab states to coordinate a joint attack on Israel after the Camp David talks. This situation will not necessarily endure, but the outcome is that Israel is in a more secure position for the time being than it has ever been in history.

The PLO has emerged from minor terrorist group to largely unrecognized but more respected and more powerful terrorist group and finally into a movement which is gaining increasing international respect and formal recognition. The PLO's main target is Israel, but it is also feared by other states of the region, particularly the conservative Arab states of Jordan and Egypt and even to some extent Saudi Arabia, which are potentially vulnerable to terroristic reprisals if they do not support PLO poliicy.

The struggle between radical and conservative Arab states has been superseded to a considerable extent by less ideological conflicts. Struggles between conservatives and moderates remain important within individual states.

Radical states tend to take stronger lines towards Israel than the conservative ones. Radical states favor the U.S.S.R. more than the conservative ones. The radical-conservative division between states has to some extent been replaced by the struggle between Egypt and its opponents over Camp David.

This latter struggle over Camp David is also a manifestation of the tensions between pressures for Arab unity and pressure for each state to follow local interests. The desire for Arab unity is strong and leads periodically to the formation of coalitions against Israel and efforts to merge different Arab states, as for instance in the formation of the United Arab Republic comprised of Egypt and Syria. However, the pressures for disunity have generally proved superior.

The East-West conflict has so far been a largely Soviet-American conflict. It began immediately after World War II, when the Soviet Union penetrated Azerbaijan, a province of Iran, and sought to turn Iran into a satellite state. This move was reversed only by U.S. nuclear threats. Subsequently the diplomatic positions of both sides have altered considerably, but the Soviet Union reached the high point of its influence in the 1970s -- very early in the decade, prior to its 1972 expulsion from Egypt -- and has been expelled from most diplomatic influence ever since.

These Middle East conflicts have been influenced by critical trends which have developed in recent years. First, the merchants of OPEC and the rising dependence of U.S. on imported oil have permitted drastic rises in oil prices, particularly in 1973 and the end of 1979-'80. The 1979-'80 oil price increases were facilitated by a shortage of oil due to declining Iranian production. The new wealth of the oil-producing Arab countries and the dependence of the West

on imported oil all implied an increase of the leverage of OPEC, and particularly the Arab members of OPEC, over Western Europe, the United States, Japan and various developing nations. They have forced changes in Japan's policy toward the Middle East, particularly on the question of Israel, and have secured far broader audiences for their views in Western Europe and the United States. They have seriously humbled various of the New Industrial Countries, including Brazil, South Korea, Taiwan, the Philippines and Thailand, and have substantially worsened the medium-term economic prospects of a number of the world's poorest countries, including India, Pakistan, Bangladesh and various African countries. The third world reaction, however, has been relatively mild, because the developing countries most affected by OPEC actions are afraid of retaliations against countries which denounce the oil price rises. Also, they are sympathetic to the concept of raising raw material prices by cartel and hope for OPEC support in creating their own cartels. On the other hand, the rapid growth of Middle Eastern countries has frequently undermined their domestic stability. The conflict between modern behavior patterns and values and traditional Islamic values was overwhelmingly strong in Iran, and the conflict has come to dominate Saudi Arabian politics and to exert some destabilizing influence on Libyan politics.

The second major trend in the region was the Camp David settlement and its subsequent near collapse. In the Camp David settlement, Israel agreed to trade territory and political concessions regarding the Palestinians for peace and diplomatic recognition, whereas Egypt traded Arab unity for territory and a series of economic advantages ranging from reduced military pressures to U.S. aid and recovery of the Sinai oil fields. The rest of the Arab world reacted strongly against the Camp David settlement on the grounds that it did

not make adequate provisions for the Palestinians, that it split the Arab world, and that it did not deal adequately with the problem of Jerusalem. The agreement has assured Israel and Egypt a period of peace. However, failure to agree on implementation of the provisions regarding Palestinian autonomy potentially endangers the position of Sadat, and failure to consolidate the peace initiative potentially endangers the position of Begin. Moreover, failure to move forward to implementation of the agreement could force a return to the warlike policies of the previous periods, just when Israel's military and economic superiority may be coming into question a few years hence.

The third major force in the Middle East is the emergence of Soviet military power. The Soviet Union achieved a near-predominant position largely through U.S. default, which was caused by the decline of the U.S. military budget during the Vietnam years and the subsequent political inability to raise the military budget in the late Nixon years, the Ford years, and the early Carter years. The U.S. has responded with a substantial military buildup, including a search for bases throughout the region and a further buildup of its base on Diego Garcia in the Indian Ocean. The result could well be that the U.S. will come to hold a predominant naval position, while the Soviet forces in Afghanistan and on the Iranian border will provide it with land-based superiority. In any case, the likely outcome seems to be a long-term arms race and an arising danger of Soviet-American clash.

The Iranian civil war is, of course, a major recent development in the region. It creates uncertainty as to the level of oil supplies available to the rest of the world. It creates a political vacuum which threaten to draw the United States and the Soviet Union into military conflict. Iran's taking

of fifty-three American hostages reversed the Carter administration determination not to become militarily involved in third world countries and hence became a major turning point in great power relations. Iran is heading toward a period of anarchy, then perhaps toward the emergence of a relatively conservative military regime, or a strong leftist regime, or the rule of a more organized and less reactionary religious figure. While there is some possibility of Iran adopting a relatively pro-Soviet posture, so long as direct Soviet military invasion is deterred Iran is likely to return by the end of the 1980s to its traditional anti-Soviet posture, because the Iranian nation has more to fear from Soviet expansionism than from U.S. efforts to secure its oil supplies.

All of the conflicts in the region are likely to be affected by the emergence in the early 1980s of Soviet dependence upon imported oil. This emerging dependence will provide the Soviet Union with incentives to achieve a hegemonic position relative to Iran, to press Saudi Arabia into an accommodation, to increase its military forces in the region, and to promote the power of its surrogates in South Yemen, Ethiopia and elsewhere, and to intensify its opposition to Israel.

A number of critically important consequences have already emerged from these various trends. Israel's economic and political position has been substantially weakened, because Israel is now less unified domestically, less secure in arguing that Egypt is the real threat to the peace in the region, less successful in its domestic economics, and weaker because of the leverage that the oil cartel and financial surpluses give to the Arab countries. Second, the shortage of oil caused by the Iranian revolution is a critical pre-condition of OPEC's continuing ability to raise its prices. Third, a

general regional instability, greater even than is customary in this region, will likely continue throughout the 1980s. The general instability, the changing military balance, and the rise in Soviet need for oil imply a rising risk of direct U.S.-Soviet clash in the region, and a collapse of the Camp David process could, unless something successfully replaces it, increase the likelihood of warfare between Israel and its neighbors.

The future of the region will hinge upon several key issues. The first is whether instability in major oil producing countries will occur simultaneously. Saudi stability is likely for another five years but may not persist much longer than that. If Saudi Arabia is stable until the situation in Iran is stabilized, and if potential instability in Libya fails to coincide with either Iranian or Saudi problems, then a difficult situation in world oil markets could be prevented from becoming a disaster situation. However, simultaneous instability in two or more of the major oil producers could produce severe scarcities, extremely high prices, and potentially a world economic depression.

A second issue concerns the size of the OPEC financial surpluses and whether those surpluses will continue to be substantial by the end of the decade. Huge financial surpluses could give the Arab oil producers ultimate leverage over the future of the world financial system and over the growth prospects of much of the world's economy. On the other hand, oil is a commodity like other commodities, and a combination of increased worldwide production and political problems within OPEC could conceivably cause a collapse of oil and other energy prices by the end of the decade. If the OPEC countries do manage to maintain large surpluses, the use they make of those surpluses will prove a critical determinant of the future direction of the

financial industry, petroleum-based industries, and the prospects of various countries.

The third major issue is whether the Soviet Union will move into the region militarily or whether it will seek to assure its supplies of oil and its political role in the region primarily through diplomatic and subversive means.

Finally, the future of the Camp David process will determine whether or not Israel achieves long-term security or whether the region returns to an era of persistent risk of Israeli-Arab war. If the Camp David process collapses, it could lead to confrontations or to a superseding of the Camp David process by something along the lines of current West European initiatives for an overall settlement. In any case, the current general instability of the region seems likely to continue throughout the 1980s.

Africa

The 1970s were notable as the decade when the independence of the Portuguese colonies, Angola, and Mozambique, and the termination of white rule in Rhodesia ended colonial rule in Africa. (South Africa is a special case which, although the height of racism, does not constitute colonialism.)

The dreams of post-colonial Africa comprise a mixture of African unity, third world solidarity and national development. To some extent, each of these dreams has led to disillusionment. The dream of Pan-African cooperation has been gradually discredited as various international conflicts made unity impossible to attain. North of the Sahara, conservative regimes fight radical regimes, and indeed, virtually every country feuds with most of its neighbors. The East African Community of Kenya, Uganda and Tanzania disintegrated quickly

after independence, and intense hostility between Kenya and Tanzania persists, as do numerous other conflicts.

There is also some disillusionment with third world solidarity. African countries have been badly burned by the rising oil prices promoted by their third world "friends" in the Middle East. African countries anxious to achieve the cancellation of their foreign debt have found themselves badly burned by the contrary interests of the more successful New Industrializing Countries (as noted earlier). African countries have watched the third world movement become divided on a series of other issues, and have become divided themselves over the role of Soviet-supported Cuban efforts in Africa. It is increasingly the view of African countries that the Russians are effective at winning military conflicts but ineffective at facilitating economic development; the Russians and Cubans can be difficult to send home once they are present, and their presence can be politically destabilizing, as Angola has discovered.

African efforts at economic development and national integration begin from a very low base, and therefore cannot be expected to have accomplished a great deal by the early 1980s. Nonetheless, there is considerable disillusionment. Most African countries remain severely poor and ethnically divided. The economic success stories below the Sahara are largely confined to Nigeria, Kenya, the Ivory Coast and Gabon. There are a few near-successes, such as Malawi and Botswana, and there is at least one potential major success, namely Zimbabwe, which has an extraordinarily auspicious combination of human and natural resources, but the basket cases, such as Chad, Mali, Angola, Mozambique, Somalia, Ethiopia, and the Sudan, are more numerous.

Despite these disappointments, the 1980s could conceivably see a brightening of the picture in Africa. Better education and administration have improved the future prospects of a number of countries. The termination of colonial rule removes one of the principal opportunities for Soviet tampering, and disillusionment with the Cubans may well reduce their disruptive role in Africa during the 1980s. The harsh results of radical policies in Mozambique and Angola, and of uncivilized right-wing regimes in Uganda and Zaire, have been widely noted and appropriate conclusions drawn. Zimbabwe's efforts to avoid both extremes and to pursue moderate technocratic policies could, if they succeed, prove a magnet for other African states. Already Mozambique and Angola are inching away from their reliance on radical ideology rather than technocratic calculation as the basis of development. On the other hand, steady progress toward stable prosperity is not assured for any country of the continent.

On the negative side of the ledger, the 1980s will be the period of the gathering storm in South Africa. Eventually, blacks will rule in all or most of South Africa, but proponents of black rule face four million whites who are organized, determined, prosperous, and heavily armed, and in addition feel that they are defending a legitimate homeland because they have lived there for several centuries. The likely result is very large-scale warfare, and the Soviet Union will likely profit from that warfare because it will always outbid the West in violent intervention. But the final conflict in South Africa will probably occur during the 1990s rather than the 1980s. In the meantime, the West's trade, its mineral sources, and its banking relationships are increasingly shifting away from white South Africa and toward the black majority of the rest of the continent.

Latin America

In the 1950s and early 1960s, virtually all of Latin America was a U.S. fief. The United States installed a government in Guatemala, facilitated a military take-over in Brazil, and generally dominated the politics and economics of the continent. At the same time, virtually the whole continent appeared vulnerable to communist subversion. Weak governments, severe social inequality, the absence of land reform, and proliferating guerrilla movements supported by China and the Soviet Union frightened U.S. liberals and conservative alike. Since that time, communism has enjoyed only a Pyrrhic victory in Cuba and has been defeated nearly everywhere else. Cuba's economic failures are widely understood. Cuba's dependence on the Soviet Union for the first time linked communism and colonialism in the minds of Latin American populations, thereby discrediting communist approaches to development. China has stopped supporting guerrilla movements in Latin America, and the Soviet Union has lost its ideological attractiveness and political leverage with most Latin American opposition movements. Other leftist movements have also been discredited. The leftist military revolution in Peru soon went bankrupt and thereby discredited itself. Allende's socialism in Chile has become a widely analyzed example of how not to promote a socialist revolution.

In all the major countries of Latin America, relatively conservative approaches to economic development have consolidated themselves. Brazil was the most prominent economic success story of Latin America in the 1960s and the 1970s, and rough versions of the Brazilian model have proved broadly attractive to the major countries of the southern cone. Today, conservative policies predominate in Argentina, Chile and Uruguay, as well as in other

southern Latin American states, and are likely to continue to do so. Moreover, these states have come to perceive common interests in trade and ideology and have moved to improve economic and political relations (despite the notable failure of Chile and Argentina to resolve the territorial dispute over three small islands, seabed rights and Antarctic rights).

Likewise, an Andean group of countries with moderate policies has been promoted by Venezuela, Colombia and Ecuador, all of which are navigating through problems of violence, inequality, and rapid social change with some prospect of success.

The principal area of uncertainty in Latin America has been Central America. Central American countries retain far more of the characteristics of Latin America in the early 1960s than their larger neighbors. They were dominated by the United States longer, dominated by oligarchic groups more thoroughly, and have been more easily dominated by small, corrupt elites than their larger neighbors. Revolution has occurred in Nicaragua and is likely in El Salvador and Guatemala. There is also sporadic radicalism in various parts of the Caribbean. However, the ultimate consequences of these revolutionary developments are uncertain. The Nicaraguan revolution could become radical, but at this writing remains relatively broadly-based and potentially moderate. The revolutions in El Salvador and Guatemala are as likely to swing to the right as they are to the left. In the Caribbean, a few examples of radical regimes should not be allowed to obscure the fact that the more conservative regimes like Trinidad and Tobago have been far more successful.

Revolutionary activity in Central America is thus far confined to small countries and seems unlikely to spread beyond the confines of Central America.

The social structures producing this revolutionary violence are atypical of the rest of Latin America, and the violence is therefore likely to be self-contained. In the extreme, all the potential revolutionary regimes would be vulnerable to intervention by the U.S., Brazil, or other powers. The Central American ferment should therefore be perceived primarily as a local and limited source of difficulties for banks, foreign investors, and for the U.S. government. It would achieve wider significance only if it showed a tendency to spread into Mexico, where the highly developed institutionalized Party of the Revolution and the formal democratic institutions may not forever be capable of maintaining control in a society which is actually run in a politically elitist and economically inegalitarian manner. However, a Mexican revolution in the 1980s appears unlikely.

The real concern for Latin America in the 1980s will not be revolutionary ferment in the tiny states of Central America, but the evolution of the continent's largest and hitherto most successful state, Brazil. Brazil's extraordinarily successful economy has not been able to cope with dependence on foreign capital, dependence on foreign energy, and rising social inequality. Its polity, stable for nearly two decades, faces demands for democracy, constitutional judicial procedures, and general social justice. It may not be able to deliver these in the next few years. While there is no certainty that Brazil will enter a time of economic and political instability, there are certainly grounds for substantial concern. If Brazil shifts to an emphasis on economic egalitarianism, economic and political nationalism, and easing of the burden of its foreign debt, then U.S. corporations and banks and the U.S. government could find themselves dealing with not only a very different Brazil but also a very different Latin America than they have

encountered in past decades. In the long run, such a Brazil might be far more prosperous and stable, but there would be at least a difficult transitional half-decade.

Implications for the Bank

From such a general survey of international trends, it is possible to draw only highly generalized conclusions. It would be inappropriate to attempt to draw detailed marketing conclusions from an analysis which proceeds at a very high level of abstraction and which focuses on political issues at the cost of some inattention to important economic trends. However, from this survey, some generalized conclusions seem to emerge:

1) There is in the world a generalized raising of levels of risk caused by increased East-West tensions, by increased fragmentation of the Western alliances, by increased Soviet military activity in Asia, Africa, and the Middle East, by the political and economic difficulties of the hitherto successful New Industrializing Countries, and by general world economic difficulties.

2) There is a particular clustering of risk in markets which have appeared particularly lucrative in the past decade, namely such New Industrializing Countries as South Korea, Brazil, the Philippines, South Africa, and parts of Eastern Europe. The increasing risks are of a sufficient magnitude to require either substantial retrenchment in third world and East European banking activities or else vigorous efforts to diversify the risks. Because investment in the U.S. and the other advanced democracies seems to offer limited profitable opportunities, the preferred alternative appears to be vigorous diversification.

3) Risks of regional (as opposed to bi-national or national) conflicts of great magnitude will be highest in East Europe and the Middle East, lowest in North and South America and the South Pacific.

4) Even with vigorous diversification, the average level of risk will necessarily increase. This implies that:

- a. spreads should increase
- b. loan loss reserves should increase
- c. profits should increase to cover the latter.

5) The intelligence requirements of banks will be very different for a highly diversified portfolio than for the present concentrated third world portfolio. For the past two decades it has been possible to concentrate attention on a very small number of New Industrializing Countries. One could follow Brazil, South Korea and a few other countries quite closely and rely on fairly limited economic and political intelligence about most of the world. A highly diversified portfolio implies the need for detailed knowledge of the prospects of countries such as Zimbabwe, Sri Lanka, India and China, and of particular sectors and organizations within those countries. These are far trickier markets to operate in, even during boom periods of the world economy, and they will be particularly risky during the high inflation, low growth, costly energy period of the 1980s.

6) The Pacific Basin region will remain the area of greatest economic dynamism and therefore of greatest investment opportunity.

7) There will be rising political risk in relationships with the Soviet Union and an increasing incentive to promote projects with China.

8) The return of significant risk of an East-West military clash to

center stage in world politics poses peculiarly difficult questions for organizations as potentially vulnerable as banks centered in New York. On one hand, the risk of war is very small in any short period of time, so there is a strong organizational bias not to waste energy thinking about the possibility. Also, the destruction that would be caused by any nuclear warfare would be so great that there is a tendency not to think beyond the war. Devoting much effort to this issue risks the kind of ridicule one associates with people who dug backyard fallout shelters in the 1950s. On the other hand, history may not have ended just yet. Most countries other than the United States have periodically experienced devastating war, and those major institutions which took small but important preparatory measures survived while others did not. A prudent multibillion dollar organization would at a minimum insure, as the U.S. government does, that its most vital records are stored in duplicate in some relatively safe place. It might want to ensure that certain of its computers were relatively well shielded from destruction of programs and data by severe magnetic fields. The expenditures entailed by such precautions would be quite limited. Hopefully, they would be wasted. But if they were not wasted, they could well make the difference of survival of the institution.

9) In order to adapt to the riskier environment, and to an environment in which some of the hitherto fastest expanding markets could suddenly become contracting markets, significant organizational efforts will be required to educate personnel about the changing environment, practice people in dealing with market retrenchment and loan rescheduling situations, inure the organization to aggressive development of more arcane market opportunities, and adapt to the new intelligence requirements of a more diversified portfolio. These changes are straightforward to state, but potentially very difficult to manage.