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REAGAN'S WORLD

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Reagan's World

International political events had an unusually large impact on world economic developments during 1980. The Iranian revolution was the principal cause of higher energy prices. Events in Afghanistan influenced the course of major projects in Eastern Europe and the Soviet Union. U.S. markets as diverse as grain and defense were affected by international events. Indeed, to the extent that Reagan owes his election to such external political developments, we may see his economic plans as partially their by-product. Hence it is useful to survey the international situations facing Reagan and to obtain a preliminary reading of his responses.

The Industrial Democracies

A key problem facing all of the industrial democracies, Japan, Western Europe, and the United States, is economic stagflation. Economic stagflation has a political counterpart, weak government. In Japan, the government has barely held onto its governing majority during two of the last three elections, and Prime Minister Suzuki is currently

in difficulty. In Britain, the Conservatives' grip on the government may be weakening. In all of the Scandinavian countries, there is oscillation between parties based on a few percentage points. This is true even in Sweden where in the past one party has governed the country for forty years. The same phenomenon is at work in France, Italy, Spain and Belgium, and appears to be taking hold in West Germany. In the United States, Carter was elected in 1976 by a one per cent margin. While Reagan has just been elected by a large margin, this was a massive vote against Carter, not (at least yet) a mandate for Reagan.

During the 1930s, a similar combination of economic and political weakness led to a disastrous political polarization. Many people joined the communists on the left or the fascists on the right. In contrast, today there has been a movement toward the political center and consensus. Such a centrist consensus is in one sense a source of strength. But the content of this consensus is moderation or, more specifically, an agreement not to infringe seriously on the interests of any major group. The result is a stalemate. Governments refrain from implementing major policy initiatives for fear of offending the consensus and

thereby losing office. In such situations, there arises a pervasive yearning for new leaders -- outsiders with new views -- to break the impasse. Jimmy Carter was elected for this reason, as was Ronald Reagan. Similarly, Margaret Thatcher's election in Great Britain and Mitterand's in France can be seen as quests for such an outsider. However, as is soon obvious to these new leaders, political realities usually dictate that they move back to the center and thereby preclude the implementation of much of their innovative programs. In foreign affairs, as noted below, Reagan has responded much more rapidly than Carter to centrist pressures.

The other major political issue among the industrial democracies is the unity and posture of the NATO alliance. Will the industrial democracies take a united and strong position in the very difficult situation facing us vis-a-vis the U.S.S.R.? As it stands, NATO is facing the greatest internal crisis since its founding. Two main developments are responsible for this: the decline in U.S. military position after the Vietnam War and the growing rift between the U.S. and its Western European allies. After the Vietnam War, the argument prevailed in the United States that small

increases in the defense budget merely added to "military overkill." The decline in our defense budgets relative to that of the Soviet Union resulted in a situation where there was parity in the nuclear arena, but Soviet conventional superiority in key places such as Germany, the Middle East, and South Asia. Nuclear parity deprived the U.S. of the ability to make credible nuclear threats and thus greatly enhanced the political value of Soviet conventional forces. With the relative decline of the U.S. military position, West European allies became more hesitant about following the U.S. into difficult confrontations.

Second, during this period there has been a re-emergence of Western European nationalism which had partly subsided after World War II. The European Community, originally guided by the view that gradual economic integration would gradually enhance political unity, has found economic integration painful in these difficult times, so there is an attempt to seek unity through the development of a distinctive foreign policy -- which must by definition differ with the U.S. on key points.

The recent history of NATO has reflected these and other trends. Recall the "Nixon shocks." Nixon went to

China without advising the Japanese and the Europeans. He devalued the dollar without consulting them and he suspended soybean exports to Japan for domestic reasons. These "shocks" were clumsy American adjustments to a decline in the U.S. post-World War II economic role and to shifting relations with the communist powers. Carter came to office promising to remedy alliance tensions and avoid further shocks; this was the central theme of the Trilateral Commission. Under the Carter administration, however, there were embarrassing public disputes with Western Europe and Japan over items on a long agenda including trade policy, nuclear non-proliferation, monetary policy, rises in defense budgets, SALT, human rights, and the neutron bomb. Moreover, Carter policies such as the tying of our entire Middle East policy to the fate of the fifty-three hostages led the Europeans to the view that the United States was incompetent. Thus there was little allegiance to U.S. policy initiatives. When Carter declared a high technology boycott over the Soviet invasion of Afghanistan, Western European companies such as Klockner and Creusot-Loire filled in the vacuum, taking over the contracts that U.S. companies had abrogated. And when Carter declared an Olympics

boycott, only West Germany followed the U.S. lead. The end result was growing mistrust -- the Europeans viewed the U.S. as incompetent and the U.S. viewed the Europeans as unfaithful. The rift in the NATO alliance widened.

The early European reaction to Reagan was quite favorable. West Europeans saw Haig as a known quantity and a sophisticated friend, and believed he would be such a strong Secretary of State that Washington would in the future have one foreign policy, rather than the conflicting multiple policies that prevailed under Carter. West Europeans agree today that Reagan has consulted them more sincerely than Carter ever did. The European allies were happy to see Carter go, whoever replaced him. But Washington's divisiveness has reemerged, and on a broad range of policies (El Salvador, the Middle East, arms control) the honeymoon is over. Perhaps most importantly, the Reagan administration's attitude of confrontation with the Soviets, however justified, coincides with a very strong mood in northern Europe of anti-nuclear, pro-detente sentiments similar to the post-Vietnam mood which swept Carter to power in 1976-'77. This mood endangers NATO agreements to raise defense budgets and to modernize NATO's theater nuclear forces.

Despite these problems, there are some short-term positive developments. There has emerged in the U.S. a new near-consensus about the importance of defense, and about the importance of blocking Soviet expansionism, as a result of the crises in Afghanistan and Iran. Thus, Washington, while still talking with several voices, speaks with greater coherence on these two critical issues. And the most recent crisis, namely Poland, has occurred in the heart of Europe, triggering a common U.S.-European emotional response and some joint policy planning.

East-West Relations

During the early period of the Carter Administration, the concept prevailed that North-South issues were replacing East-West issues as the key to the foreign policy agenda. Under Secretary of State Vance, the U.S. built its foreign policy around the issues of arms control and human rights. The Carter administration argued that, if the U.S. restrained its own arms buildup, the U.S.S.R. would do likewise, and that if the U.S. stopped intervening militarily in the third world, the Soviets would do likewise. But in practice East-West issues continued to dominate foreign policy. The Russians responded to Carter's

outpouring of arms control proposals with a continued, massive military buildup, and they repaid four years of U.S. military abstention from the third world with massive intervention in Ethiopia, support of Vietnam's depredations in Indochina, invasion of Afghanistan, and support of aggressive Cuban sponsorship of revolutions in Central America. Thus relations with the Soviet Union became tense and arms control initiatives were moved to the sideline.

U.S. policy toward China also changed significantly during the course of the Carter Administration. Under Vance, the Carter Administration followed a policy of balance between China and the Soviet Union. According to this policy perspective, friendliness or hostility toward one of the two major communist countries should be counterbalanced by similar attitudes toward the other. However, the sharp contrast between Soviet expansionist policies and Chinese friendship caused the replacement of this posture of diplomatic equidistance by one of closer relations with China. While the Soviet Union was stressing a military buildup and use of military power to expand its influence in the third world, the Chinese allied themselves economically, technologically, and diplomatically with the

West. China supported stability in Korea and Thailand. It promoted the development of the non-communist Association of Southeast Asian Nations. It advocated a stronger U.S.-Japanese alliance. Teng Hsiao-ping even announced that China was an honorary member of NATO. Given the different attitudes at the Soviet Union and China, Vance's equidistance policy was untenable. Today the tilt toward China is generally accepted, as is the premise that the U.S.-China relationship should remain an affair rather than a marriage -- in other words, that cooperation should not evolve into a formal alliance. Nonetheless, if Russia invades Poland, the U.S. will probably arm China.

In this global situation, the Soviet Union has acquired military advantages in key areas. However, it has suffered setbacks diplomatically and economically. The Soviet Union has antagonized the Chinese, built up military bases on the Kurile Islands which are disputed by the Japanese, irritated the Islamic world by invading Afghanistan, antagonized Norway, and instigated trouble in Southeast Asia. In so doing, it has created against itself history's greatest diplomatic entente -- the United States, Japan, China, Western Europe, most of Southeast Asia, and

most of the Muslim world. Meanwhile, the Soviet Union has suffered two successive harvest failures, a decline in industrial growth, and stagnation of oil production, while facing a labor shortage, a massive decline of investment, buréaucratic immobilism, and a technological lag behind the U.S. which (outside military areas) has not noticeably changed in a generation. In Poland, Western Europe, the Middle East, and Afghanistan, the Soviet Union faces a nightmare combination of difficult situations. The U.S.S.R. faces these difficult economic and international situations at a time when the average age of its senior leadership exceeds 70. Thus the policy struggles will be compounded by succession crisis. The result is a militarily arrogant but diplomatically and economically insecure power. This combination of arrogance and insecurity is a very dangerous combination, suggesting long-term U.S. problems with the Soviet Union and continued pressure for closer relations with China.

The Middle East

Three areas in U.S. Middle East policy are of critical importance -- the U.S. stance toward Iran, the U.S. attitude toward the oil producers, and the future of the Iran-Iraq

War. One of the greatest strategic interests of the U.S. in the Middle East is the maintenance of Iran's territorial integrity. Iran is an important source of oil. It is on the flank of NATO and therefore militarily important. It is the strategic key to successful defense of Saudi Arabia. That puts the U.S. in the position of needing, for strategic reasons, to be allied with Iran even if Iran is behaving in a hostile fashion. Likewise, in the long run, Iran needs the U.S. The Soviet Union is a much more serious threat to Iran than the United States. (Baku, now a Soviet resort, was once a Persian resort.) To some extent, this was understood by both the Carter Administration and the Iranians holding the hostages. For the U.S., this is a situation similar to that faced by the British during the Cultural Revolution in China. The Cultural Revolution was worse than Iran's revolution, and Britain's embassy was maltreated. But the West gritted its teeth, and now China is an important informal ally. In the end, if the U.S. sticks it out, the conjunction of U.S. and Iranian national interests may lead Iran to become once again a strong bulwark against the Soviet Union. The extent to which the Reagan Administration moves in this direction may be used as a litmus test of the rationality of its policy.

The second crucial arena in the Middle East is the Arab-Israeli dispute and the Camp David agreements. The Reagan Administration will find itself facing the necessity to choose whether to strengthen the U.S. military position in the Middle East or to lean far more heavily in support of Israel. The Camp David Agreements have been in trouble because the formula for Palestinian autonomy was not adequately specified. The parties have been moving further apart. Under Begin Israel has been taking an increasingly harder line. While Reagan's campaign rhetoric would suggest a much more pro-Israeli stance than was taken by the former administration, Carter's campaign rhetoric four years earlier was virtually identical. Pressures will emerge very quickly pushing Reagan toward a more centrist position, just as they did with Carter. Public opinion polls show that most Americans are committed to the security of Israel. Commitment to Israel's survival and prosperity is not an issue in the U.S. But relations with the oil producers are an issue and our military position, about which Reagan feels very strongly, is an issue. The key to the U.S. military position in the Middle East is an Egyptian base at Ras Banas. By April 1982, Egypt will get back the rest of the

Sinai and will therefore have a great deal more leeway for becoming assertive than it now has. The choices and the pressures for Reagan will then be more clear-cut. While Reagan has reduced U.S. criticism of Israel's settlements, his advocacy of selling AWACS aircraft and F-15 bomb racks to the Saudis, and his administration's disavowal of Israeli claims that Soviet advisors are active in Lebanon, suggest that his policy will be a complex balance.

Finally, there is the issue of the Iran-Iraq War. The U.S., like the Soviet Union, has a formal position of neutrality. There are pressures, however, to shift that position informally. Historically, the conflict may be seen as the latest manifestation of the ancient rivalry among Babylon (now Teheran), Cairo, and Baghdad for control of the Fertile Crescent. This historic rivalry is behind the minor territorial issues. From a strategic viewpoint, it can be seen that the Iran-Iraq War began because basic conditions affecting this rivalry had changed. In the past, the situation was determined by three key factors: Iraq was divided, and threatened by Syria; Egypt was the diplomatic leader of the Middle East; and Iran was the region's military leader. With the signing of the Camp David

Agreements, Egypt lost its diplomatic leadership. With the advent of the Iranian revolution, Iran lost its military leadership. A newly unified Iraq, no longer worried about a weakened Syria, moved into the diplomatic vacuum thus created by leading the Steadfastness Front, and moved into the military vacuum by attacking Iran. While the irritations of the Iranian revolution encourage thoughts in Washington of a tilt toward Iraq, particularly now that Iraq is moving away from the Soviets, the overriding U.S. strategic interests in the region will continue to center on Iraq's ancient rivals, Iran and Egypt.

Direction of the Reagan Administration

So far, Reagan's foreign policies remain largely undefined, but his staff appointments and early decisions provide some indication of future directions. A comparison with Carter highlights what Reagan has done. By the time Carter formally took office, his prospects had already been destroyed by his appointments. All the key foreign and defense policy positions in the administration, the assistant secretary and deputy assistant secretary jobs, had been assigned to idealistic, inexperienced young people.

These "working-level" individuals effectively dominated policy, and their ideological post-Vietnam idealism led to naive policies, as mentioned above, which quickly became discredited. Despite the fact that Reagan's campaign team was also inexperienced and idealistic, Reagan has established much greater professionalism. Although Reagan's transition teams, like Carter's, were dominated by a young, inexperienced, ideological campaign staff, both Haig and Weinberger fired their transition teams. State Department appointments have been dominated by moderate, experienced technocrats. Despite radical campaign rhetoric, the basic foreign policy theme is continuity. Instead of seeing Taiwan re-recognized, we see the affirmation of Carter's China policy. Instead of a crusade against African Marxists, we see an aid commitment to (formally Marxist but pro-Western and pragmatic) Zimbabwe twice the level offered by any other African country. Toward the Middle East, immoderate rhetoric has given way to centrist decisions. On military spending and El Salvador, Reagan has simply been more decisive and dramatic in implementing policies toward which Carter was gradually leaning.

There are some question marks, namely, Nicaragua, South Africa, and protectionism. On such issues, the struggle is basically between the business technocrats and the ideological conservatives. The business-oriented analysts look for the bottom line regardless of ideological labels and frequently conclude that they can do business with Nicaragua, that they buy more strategic minerals from black Africa than from South Africa, and that the U.S. auto industry will in fact gain little from the quotas imposed on Japan. The Reagan administration policy seems to be moving toward the position of technocratic, business-oriented analysts on most issues.

Overview

An overview of today's world highlights one major theme. In many key aspects of world politics, things are coming to a head -- among the industrial democracies, in East-West relations, in the Middle East, in Afghansitan, in Poland, in Brazil, and in France. Seldom in this century have so many complex, dangerous, interacting issues been on the agenda simultaneously, and seldom have the political and economic muscles of the major powers been so flabby in grappling with such important issues.