Bankers Trust Company International Assessment
International Economics
280 Park Avenue, New York, N.Y. 10017 U.S.A.

THE GLOBAL POLITICAL ECONOMY

WEST-WEST AND NORTH-SOUTH ISSUES

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PAG 60/1-D 07 August 1981

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Since the mid-1970s, the global economy and its politics have been affected by a series of historic developments:

- -- stagflation among the industrial democracies, and concomitant political weakness;
- -- sharpening of North-South divisions to the point where some late-1970s observers maintained that the North-South split was becoming as important as the East-West split;
- -- the continuing consequences of the 1973 oil price rise and the subsequent post-Iranian Revolution oil price explosion;
- -- the interest rate explosion of 1980-´81
- -- the continued emergence of the Pacific Asian countries as the center of world economic dynamism.

These economic developments have in turn shaped the environment within which foreign policies were conducted. This paper will briefly survey these developments in order to provide a background for analysis of the foreign relations of the period.

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 electorial 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, for an outsider who could break the deadlock, which gives rise to a Margaret Thatcher in Britain, to Jimmy Carter and Ronald Reagan in the U.S., and to Mitterand in France.

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.

More gradually, there could be a slow move toward economic recovery, based on: potential topping out of oil price rises; adjustment to past oil price rises through technological improvements; welfare and trade policy changes forced by necessity, especially in Scandinavia, Australia, and New Zealand; and structural changes such as the absorption of the late 1970s generational bulge of inexperienced U.S. youth and female workers. Alternatively, a retreat into protectionism and obsolete welfare formulae could turn stagflation into a global crisis.

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. 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, by disagreement over Japan's continuing its low posture defense policy, 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 auspicous 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. Eight 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, although a new coffee agreement has just been signed. Efforts to create cartels in copper, tea, 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 could 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 diplomatic agreements. Even OPEC, the successful oil cartel, succeeded largely because of market forces rather than by deliberate 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 two explosive price rises. 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 and made concessions to help Nicaragua, 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 a 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 temporarily 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, Indonesia, the Philippines, 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 diplomatic 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 temporarily in 1980 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 over-confidence, 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 reform programs declined.

The problems of the Muslim countries were different but related in time by a series of coincidences. 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, have survived so far, 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 influence American and Western foreign policies.

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. By 1981 Brazil's debt exceeded $60 billion, and third world debt exceeded $400 billion. 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 still appears relatively unlikely 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.

The debt crisis caused by OPEC price rises and slow Western growth has been greatly exacerbated by recent Western monetary policies. When Jimmy Carter took office, the U.S. prime rate was 6.25%. When he left office it was hovering around 20%. Most third world loans float over LIBOR or (less frequently) the prime rate, so the cost of servicing both old loans and new rose spectacularly. In 1980 the Carter interest rate tax for Brazil amounted to $325 million for every one percent rise in the interest rate. Ronald Reagan's domestic economic policies have kept interest rates high, and Western competitors of the U.S. must also keep their own interest rates high lest their currencies weaken as foreign reserves move out in search of higher U.S. returns.

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.

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 expensive 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 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 Philippines 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, South Korea and Singapore.

In the slower growing world economy of the 1980s, these waves of rapid, export-oriented growth cause 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 and shipbuilding 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 confrontational 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, from Bangladesh to Zimbabwe to the Andean Pact, 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 Malaysia and Indonesia, are particularly dependent on imported energy and exceptionally 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 Northeast 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, and 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.