The Trilateral Commission was formed in 1973 by private citizens of Western Europe, Japan, and North America to foster closer cooperation among these three regions on common problems. It seeks to improve public understanding of such problems, to support proposals for handling them jointly, and to nurture habits and practices of working together among these regions.

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Editor’s Note

The Trilateral Commission held its 1988 plenary meeting in Tokyo, April 9 to 11, under the chairmanship of Isamu Yamashita. The conference, marking the Commission’s 15th year, closed with a reception and dinner at the Prime Minister’s Residence and at Ikura House with Foreign Minister Sousuke Uno. In his remarks, Prime Minister Takeshita briefly called attention to some important changes during the 15 years of the Commission’s existence. He went on to say that “our three regions—sharing as we do the same basic values of freedom and democracy—should be unshakably bound and should ever strengthen the solidarity of the West.”

As is typical, a portion of the meeting was devoted to a discussion of recent trends and events in the host country—and is covered in the first part of this publication. The evolving leadership role of Japan was an important theme of the overall meeting.

The broader East Asian region was also discussed. A draft task force report on “The East Asian Transition: Challenges for the Trilateral Countries” was presented in Tokyo and will be published soon as Triangle Paper 35. An East Asian panel—that brought together a Chinese and South Korean on the same dais—followed the task force session. Park Yung-Chul, former Senior Secretary to the President for Economic Affairs, focussed his remarks on Korean economic policy. Pu Shan, Director of the Institute of World Economics and Politics in Beijing, spoke about economic reforms in China.

The Commission used the occasion of its 15th anniversary for a broad review of the “State of Trilateral Cooperation and Future Challenges,” to which the second half of this publication is largely devoted. Discussion focused on four areas—Domestic Realities, International Economic Management, North-South Issues, and East-West Issues. Zbigniew Brzezinski, the Trilateral Commission’s first Director, prepared a brief background paper—“Beyond XV”—that is excerpted here. The Tokyo meeting concentrated on international economic management in particular. Major addresses by Kiichi Miyazaki, Otto Graf Lambsdorff, and Paul Volcker are presented here in their entirety.

Georges Berthoin sought to capture the spirit of the meeting in his concluding remarks. He sensed “a fundamental recognition that is at the same time a challenge and a description of a situation. I would put it into three categories. First, how to become equal. Second, how to be equal. Third, how to manage the equality.

Japan illustrates the first point—how to become equal. That’s done, and we see the style and intensity of this process. Japan is equal. Other parts of the world are aiming at the same thing. And then being equal. This is a difficult thing, because it is a two-way process. You want to be recognized as an equal, but you have to behave like an equal. A qualitative change becomes necessary. I would say a fundamental philosophical change—how to see and recognize the other. This is going to be difficult. The system which creates that neutral recognition, will be the system with the greatest prestige and attraction in the world. This is not an ideological point of view. It’s a human point of view.

How to manage collectively this equality. Here, we will need imagination. Here, we will need the capacity to remain faithful to our tradition, but at the same time to adapt ourselves to this dimension of the challenge. And maybe if we look from a historical point of view, we might be on the verge of being able to redevelop a certain type of world civilization.”
The 1988 Tokyo plenary meeting marked the 15th anniversary of the Trilateral Commission. Our review of progress in trilateral cooperation and future challenges reaffirmed the importance of private-level dialogue among North Americans, Western Europeans, and Japanese.

At the time of the creation of the Commission, there was considerable skepticism in all three regions about the utility of the concept of trilateralism—in which Japan, for the first time, was accepted as an equal partner with the major developed, democratic countries in Western Europe and North America. It soon became clear that trilateral cooperation was an essential contribution to the effective management of the international economic system and, as the years went on, to the maintenance of international security as well.

The Economic Summits, begun two years after the first Trilateral meeting, have institutionalized regular contact among our highest government leaders. In the international economy, monetary problems, in particular, have stimulated a much greater degree of policy cooperation among the finance ministers and central bankers of the trilateral “Group of Seven.” A coordinated approach by the Trilateral nations to an intermediate-range nuclear force agreement played a crucial role in helping produce the present “zero-zero” treaty.

Our nations have a vital stake in continuing to strengthen this cooperation. The following deserve priority attention:

- Unsustainable trade and current account imbalances remain a very serious threat to the world economy. Failure to move in the direction of significantly reducing the large U.S. current account and budget deficits, and West German and Japanese trade surpluses, could lead to increased protectionism, turbulence in the foreign exchange and stock markets, and economic recession. Last October’s “Black Monday” was a serious warning that must be heeded by our countries’ political leaders.

- In parts of the developing world, debt servicing burdens, deteriorating terms of trade, and other problems have caused a cessation of economic growth. We are deeply concerned about the human consequences of negative growth, as well as the economic and political implications. The Trilateral countries must act urgently to assist renewed growth in Southern Asia, Latin America, and especially Africa. In this regard, we need to assure a net flow of resources from the Trilateral countries to the developing countries.

- The new Soviet leadership under Mikhail Gorbachev has taken steps that can help significantly in improving East-West relations. In particular, we welcome the conclusion of the INF treaty and the Soviet interest in withdrawing its armed forces from Afghanistan. Cooperation and policy coordination on the part of the Trilateral countries on the future arms control agenda in East-West relations, especially strategic and conventional arms limitations talks, are of critical importance to advance our common security interests. We also need to work closely in promoting the peaceful settlement of regional tension and conflict, including the conflicts in Cambodia, between Iran and Iraq, and in Central America.

A major theme at this Trilateral plenary was the growing international expectations of Japan. With its tremendous financial assets and current account surpluses, Japan is in the best position of all the Trilateral countries to increase its Official Development Assistance and private
investment in the developing world, to take new measures to further liberalize access to its market, and to make non-military contributions to international security. We applaud the significant steps that Japan has taken in these directions, as evidenced by the recent trends toward increased domestic demand and imports. These trends must be sustained to meet the objectives of the Maekawa Commission report. In their meetings with the Commission, Prime Minister Takeshita, Finance Minister Miyazawa, and former Prime Minister Nakasone pledged their commitment to this task.

Our members gave attention to two other important challenges.

First, consultation and collaboration has been stronger across the Atlantic, and across the Pacific, than between Western Europe and Japan. This last relationship continues to need to be strengthened. It was a good sign that the largest regional group attending the Tokyo plenary came from Western Europe.

Second, the Trilateral world must work increasingly closely with the developing Asia-Pacific countries. At the Tokyo plenary we were pleased to have guests from the People’s Republic of China and the Republic of Korea. Our task force on East Asia pointed to the economic vitality and political development in this region. The Asian “newly industrialized countries” have become a significant force in the world economy. We should welcome and encourage their increased participation in world economic institutions.

The ability of the Trilateral countries to strengthen their cooperation depends not only on a clear recognition of the importance of such cooperation within our governments, but also on increased awareness of the stakes and support for cooperation among our citizens. We reaffirm the commitment of the Commission to develop public appreciation and support for increased collaboration among our countries. We will also continue our efforts to develop creative and specific recommendations to enhance the world’s welfare through private-level study and dialogue.

Isanu Yamashita
Georges Berthoin
David Rockefeller

Tokyo, April 11, 1988
Mr. Yoshitomi began his remarks by analyzing certain broad developments in the international economy over the past year—the rise in U.S. exports without much improvement in the U.S. current account, the October "crash," and the "bumpy landing" of the dollar. He then turned to Japan, the primary focus of his presentation.

A much stronger recovery than expected has occurred in Japan in the last year or so. Why?

In three areas the recovery has been policy-supported. One is the stable exchange rate in 1987 until the crash (150-145 yen to the dollar), partly supported by the Louvre Accord of February 1987. From the viewpoint of the manufacturing sector in Japan, the stable exchange rate was helpful in making investment plans for the future. It is also very important to understand that industrial circles need some time for adjustment under the changing exchange rate.

Support for recovery also came from monetary policy: interest rates became very low under yen appreciation, which helped investment in the non-manufacturing area, as well as housing construction. In the second half of FY1987, the annual rate of growth of private housing was 41 percent— incredible, not sustainable, but supported by very low interest rates. There are also other factors that explain this housing boom (particularly incentives to reduce the inheritance tax burden by housing-related borrowing), but the bottom line is that low interest rates helped.

The third way in which policy supported recovery was through the fiscal policy package of May last year, that helped public capital formation increase in the second half of 1987 by 15 percent or so.

Hence, the 1987 fiscal year can be characterized as one of recovery supported by these policies. But we feel rather strongly that recovery will continue, supported by private domestic demand.

The key is the innovation, I feel. When I visited Hokkaido a few months ago, I met the top management of a company producing various sophisticated electronics parts. The export ratio of that company was 78 percent at the time of the Plaza Accord. Now the export ratio is only 35 percent, and yet revenues of the company have remained virtually unchanged (in real as well as nominal terms, which are more or less the same in Japan because inflation is rather small). The question is why? If his export ratio declined that much, how could he survive? He said, "word processor"—demand for word processors that could operate in Japanese characters. It was difficult technologically to translate the binary system into a word processing program that can produce Japanese characters, not the English alphabet. Just a few years ago the Japanese language word processor became marketable, which means, according to this company’s top management, that in the very near future one quarter of the total households in Japan will possess one word processor. Demand is increasing very rapidly, and hence this company benefited by providing the electronics parts.

Over the past year or so, our consumption has been concentrating on consumer durable goods. This includes both traditional consumer durable goods—refrigerators, washing machines, on so on—which are all now using sophisticated electronics (and are so quiet, we can put our washing machines in our living room!) and less traditional consumer durable goods, such as small liquid crystal color television sets, compact disks, all kinds of VCRs, and now these word processors. We are very lucky that innovation provided new domestic opportunities for such electronics firms, since these firms have suffered the most under yen appreciation, because they were the most export-oriented.

Private business investment will also help sustain recovery. Manufacturing investment bottomed out in the middle of last year, and began to increase. Recently, even export-oriented manufacturing investment began to increase rather rapidly. For this year I feel that investment in the manufacturing area in Japan will increase easily by 10 percent, or even close to 15 percent. Non-manufacturing investment continued to increase under yen appreciation, even when manufacturing investment declined. Now both non-manufacturing and manufacturing investment are going to increase rather rapidly—as a whole business investment will increase by more than 10 percent in 1988, even close to 13 percent, or so. Hence, private domestic demand-supported expansion of the economy will continue.

The policy question is how to maintain this momentum. That is really the question of how to conduct the medium-term orientation of monetary and fiscal policy and also the question of structural reforms in Japan along the lines of the so-called Maekawa Report. There are many ways of interpreting the Maekawa Report; but I will explain the following.
Our manufacturing is very strong. Today the exchange rate has to be stronger than the underlying strength of the Japanese manufacturing industry, because without a yen that is stronger than the equilibrium exchange rate for manufacturing, the Japanese market share in export and imports will remain unchanged, and our surplus will not decline much. Therefore, the actual exchange rate (125 or so) must be stronger than the underlying exchange rate (about 150 or 160). At the same time, the purchasing power parity (PPP) exchange rate of the overall national economy, according to the calculations of the OECD, is 220 yen per dollar. This means that non-manufacturing areas in Japan are still suffering from low productivity, and hence high prices and charges. That is the reason why many Japanese people, despite a strong yen, don’t feel their living standard has been enhanced.

Why low productivity? When industry develops very fast, productivity in manufacturing rises higher and higher, at a greater speed than in non-manufacturing. In addition to that, the Japanese manufacturing industry has been constantly exposed to increasingly tougher competition from domestic and international sources, but non-manufacturing has not. Non-manufacturing covers, as you know, the very inefficient agricultural sector, the distribution system, transportation, construction, and services (including our civil servants). Most of us belong to the non-manufacturing area in Japan—where productiv-

...we feel rather strongly that recovery will continue, supported by private domestic demand.

ity is not that high compared with manufacturing productivity. Therefore, the Maekawa Report is advocating deregulation and liberalization in the non-manufacturing area.

The tremendous expansion of the Japanese economy so far under yen appreciation may be largely attributed to market-oriented structural changes taken by the private manufacturing sector. I do not deny that some implementation has occurred in non-manufacturing areas, but we have to make more efforts. So, combining these various things—name-

© Masaru Yoshitomi is Director-General, Economic Research Institute, Japanese Economic Planning Agency
Sumiko Iwao
Socio-Psychological Changes

What do you think are the distinguishing characteristics of Japanese people and society? I suppose many of you would mention diligence, homogeneity in lifestyle and behavior, the importance of the group, and consensus or harmony in management and interpersonal relations in general. These tendencies have undergone significant changes in the past decade that I’d like to explore with you today, because these socio-psychological changes may have economic as well as political implications.

FROM DILIGENCE TO PLEASURE-ORIENTATION
Until recently, corporations have thrived on the single-minded dedication of men who put their work before all else. But today, members of the younger generation—who are called the “new breed”—reject the one dimensional value of older male workers, whose lives center around their work, and instead try to balance work and leisure. The Prime Minister’s Office conducted a survey on work attitudes among the Japanese. One of the questions was: “Are you prepared to dedicate yourself to your company or organization if it means sacrificing your personal life?” Forty-eight percent of workers in their forties and fifties answered “yes,” whereas affirmative replies accounted for 40 percent among workers in their thirties and only 33 percent among those in their twenties. Furthermore, a growing number of those born after 1960 expect immediate gratification for their effort. Unlike their parents, these young people have been raised amid considerable affluence and they have had less need to learn perseverance. In the workplace, people are less willing to put up with jobs they do not enjoy for the sake of promotion many years down the line. The inescapable conclusion is that the legendary Japanese work ethic, which facilitated the country’s astounding economic growth, is on the decline.

FROM HOMOGENEITY TO HETEROGENEITY
While the Japanese were still struggling for economic well-being, they lacked the confidence to make personal choices; instead they tended to tailor their behavior to match those around them. As they became accustomed to affluence, however, they gradually gained the self-assurance to choose and act independently. The rise in the average level of education undoubtedly contributed to this trend, and therefore, we observe scrupulous respect for one another’s individuality among the youth. As values began to diversify, consumer behavior altered accordingly, forcing manufacturers to switch from mass production of uniform goods to small-lot production of a greater variety of items. The shift from homogeneity to heterogeneity or diversity/individuality can be seen across the spectrum of Japanese values, behavior patterns and lifestyles. As a matter of fact, Japanese society itself is now made up of more people with diversified backgrounds as a result of internationalization.

FROM GROUP CONSCIOUSNESS TO INDIVIDUALISM
I believe that the confidence gained as a result of affluence has freed people from relying on the group—such as a corporation—as the most important reference point. The accessibility of such information-related devices as personal televisions, telephones, and computers has accelerated the trend toward more individualistic behavior. These conveniences have weakened the ties of interdependence within the family. Many young people today show virtually no concern for group values. And though still a minority, more and more young people are attracted to freelance work or self-employment to avoid being a member of an established group. A survey conducted by the Prime Minister’s Office indicates that while the number of salaried workers actively looking for new openings is still comparatively small, about half would willingly consider switching jobs if offered an attractive position or if disillusioned with their present company. The ideal of life-long employment with a single firm is losing its luster, especially among younger people; and is illustrated by the fact that workers are snapping up magazines that specialize in job listings at a rate of 300,000 copies a week.

Declining dependence upon groups, such as the workplace and schools, implies a change from passive acceptance of group decisions to more active individual decisions. The fact that more and more people are interested in directly importing their favored goods from overseas also supports this. Another example is the phenomenon of workers, as well as students, actively establishing networks with people outside of their major affiliation.

FROM HARMONY TO COMPETITION
During the period of rapid economic growth,
Japanese corporations could afford to operate on a seniority basis and place emphasis on harmony through consensus. In this new era of slow economic growth—and a corporate climate in which imagination and adaptability are gaining the edge over old-fashioned hard work and dogged loyalty—individual talent is in increased demand and is more appreciated. The rising ratio of highly educated people in the work force, and the growing proportion of older people in the population have resulted in slower promotion and fewer management opportunities. A shift from promotion strictly based on seniority to merit-based advancement cannot be avoided. Intensified competition and conflict among workers in the same organization are inevitable. Organizations have been driven to pirate talented personnel from other organizations.

* * *

In sum, the changes above seem to be steering Japan in the direction of becoming a more open society, with practices that are internationally more compatible than those in the past.

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Seizaburo Sato
Political Continuity

While it's relatively easier to analyze the changes which are going on in the economic and social aspects of Japanese society, in politics we find a remarkable continuity and stability. The LDP has been in power for the last 31 years, and will continue to maintain that position for the foreseeable future. According to recent opinion polls, there is absolutely no sign of a decline of the support for the LDP, although there's a very clear sign of a decline of support for the oppositions.

More than that, most of the leading politicians in Japan have been occupying the major positions for the last 15 years, and now some Japanese political commentators are starting to discuss who'd be the most probable candidate for Prime Minister in the 21st century. The candidates are already reduced to four or five members—which again demonstrates the remarkable continuity and stability of Japanese politics.

MERITS AND DEMERITS OF LDP DOMINANCE
There are merits and demerits to a long-term LDP Administration. Let me start with the merits. The LDP is the most stable, broad-based political party in existence among advanced democracies in the world. It has more than 1,300 so-called friendly associations—most of them are pressure groups, of course, representing sectoral interests. But with such a huge organizational base, the LDP could neglect some of the interests without fearing defeat with the coming elections.

And more than that, the support for oppositions has been very low. Most people, even those people who are supporters of the oppositions, don't want their party to take power. According to recent opinion polls, only five percent of the supporters of the Socialists would like to see the Socialists take power. What they would like to see is the Socialists act as a check, to criticize some of the bad things the LDP government might do. That is the expectation of people supporting opposition parties. So based on that, the LDP could take on reformist policies.

Now, of course, there is a negative aspect of the long-term LDP dominance, primarily because one of the secrets of the long-term LDP dominance is that there is a very flexible, or decentralized structure. There's frequent change in the leadership of the LDP. Almost every new Cabinet includes a major reshuffling—with the average term of Japanese Ministers not exceeding one year. So it's not an easy political system for making major decisions. Furthermore, since the checks and balances inside the LDP are really fierce, it's really difficult for a Prime Minister to persuade his fellow politicians. And more than that, because of the electoral system, local interests are more strongly represented in the decision-making process of the LDP than their size in the population might suggest.

SOURCES OF POLITICAL STABILITY
This continuity and stability of Japanese politics is all the more remarkable when we think about the radical, almost revolutionary, changes that are going on in Japan's economic structure. As a matter of fact, when the value of the yen started to go up vis-à-vis almost all the other currencies—especially vis-à-vis the U.S. dollar—a great anxiety prevailed in Japan that it would face a serious deindustrialization, which happened in the early '80s in the United States, due to the appreciation of the dollar. Unemployment would surely rise. The unemployment rate did start to grow from somewhere around two percent to a little over three percent in 1986. But strangely enough, it started again to go down; and now it's around 2.8 percent. Of course, the definition of unemployment is different from country to country, so it's a rather tricky business to make international comparisons of the unemployment rate. But in Japan, there's a very clear sign of the decline of the unemployment rate. The most important reason for the remarkable stability of Japanese politics rests on the fact that Japan's economic performance has been pretty good.

In spite of remarkable continuity and stability, there is some sign of change in people's attitude and basic policy directions. Let me first start with the changing Japanese political attitude. There is a widespread desire among Japanese to maintain their present prosperity, and relatively peaceful daily life. At the same time, there is a widespread anxiety that this stability and prosperity might not last if we stick to the policies which have been adopted in the last several decades. So there's a contrasting attitude among the Japanese people. While there's a growing awareness of the need for a change of policies and institutions, there's a growing and widespread anxiety that these changes might hurt, or might disturb Japanese prosperity and stability.

Then, why does the LDP still enjoy wide support from the mass of people? When people are comfort-
able with the present situation, but have a deep anxiety for the future, then there's a tendency to be more conservative, or more cautious, or more realistic. When people find the present situation is unacceptable, but the future looks very bright, then there's a tendency to be experimental, or bold, or idealistic—which did happen in the late '60s in Japan. But in the late '80s the Japanese political scene is quite different from what we had during the high economic growth period of the '60s.

Another contributing factor to the stability of Japanese politics is a remarkable decline in the appeal of the Communist and Socialist doctrines to the younger generation of Japanese. And I think a similar tendency is going on in some of the European countries, especially in France and Italy. When I was a college student, most of the brilliant students tended to support either the Communists or Socialists. If someone said, "I'm a supporter of the LDP," he would definitely be despised by his fellow students. Nowadays, the situation is completely reversed; and it is not only in Japan. Throughout Asia, communism and socialism have lost their appeal as models for development.

Important changes have taken place in the Japanese trade union movement. For the first time in the history of the Japanese trade union movement, the private sector trade unions are united nationally. In the near future, maybe within a few years, even the militant unions representing government employees will join this newly established national federation of trade unions. Most important, the basic policy lines of this new trade union federation are more realistic than before. The major demand of the new federation is not to increase wages—of course, the level of wages is part of their demands—but they are now putting more emphasis on the improvement of the quality of life, reducing work hours, and so on. And that's very conducive to the basic directions that the Maekawa Report is suggesting for a transformation of the Japanese economy.

THREE POLICY EMPHASES
In spite of the remarkable stability and continuity of Japanese politics, government budgets show clear signs of change of Japanese policy. The Japanese government has been adopting very stringent fiscal policies since the early '80s, but there are three major exceptions to the zero growth base of government expenditures. First is defense. Defense expenditures have been enjoying around a six percent rate of growth for more than a decade. Second is official foreign assistance. The interesting thing is that the growth rate of ODA (Official Development Assistance) has been constantly higher than the growth rate of defense. There's a national consensus that we should increase our defense, but that we should put even more emphasis on ODA. ODA has been enjoying almost a seven percent increase in the last 15 years. Third is expenditure for research and development. These are the three major areas free from the extremely stringent government budgetary policy. And they demonstrate which direction Japanese policies are moving.

Seizaburo Sato is Professor of Political Science, University of Tokyo
The Trilateral Commission, now in its fifteenth year, is a unique undertaking to deliberate on political and economic affairs from a global perspective. In the old times in Japan, a boy went through a coming-of-age ceremony at age 15 or so and became a samurai. It may be said that this Commission at the age of 15 is also marking its coming of age.

During these 15 years, there have been important changes in the international environment. Especially remarkable among them was the rise of Western Europe and also Asia (which includes Japan and NICs) in the free world centered around the United States. East-West relations, revolving around the two superpowers, remains unchanged in its basic adversarial nature. Nevertheless, some welcome developments have been witnessed, such as the efforts for nuclear disarmament, which claims as its most recent achievement the signing of the INF Treaty, and the developments concerning Afghanistan.

These events indirectly remind us that we are now at a historical juncture where we must reflect on how to address the new era about to unfold. Whatever our response should be, one fact is clear: our three regions—sharing as we do the same basic values of freedom and democracy—should be unshakably bound and should ever strengthen the solidarity of the West. It should be on this very foundation that we contribute to world peace and stability and further cooperation in the economic as well as cultural fields. It is also necessary, I believe, that Japan and Western Europe shoulder a greater share of international responsibilities, so as to complement the leadership of the United States.

Ever since I assumed the office of Prime Minister, I have been constantly propounding a “Japan contributing to the world,” and have sought the understanding and cooperation of our people. It is because of my conviction that Japan’s peace and prosperity can be secured only by the toil and sweat of the Japanese people, and that we should be prepared to bear and share the necessary cost, no matter how difficult it may be.

As you are well aware we are already carrying out many measures, particularly those related to economic restructuring—a course put forward in the Maekawa Report. The evolution into a domestic-demand-oriented economic structure is proceeding at a much faster pace than expected.

I have long been advocating politics for “furusato” creation. This is a concept to activate every locality of this country by putting their respective characteristics to the best advantage, and to utilize their energies for the development of the world. We view the earth as the “furusato” for all mankind, and we are determined to make a large contribution to creating a society rich spiritually, as well as materially, by promoting international exchanges and mutual understanding, not only in the political and economic fields, but also in the cultural, scientific, technological and sport areas. Especially for

...we are determined to make a large contribution to creating a society rich spiritually....
looking forward to my coming tour of Western Europe and also the Toronto Summit scheduled for June. I should like to take this opportunity to emphasize the importance I attach to personal contacts with leaders of these countries. Japan, as a member of the West and as a country of the Asian-Pacific region, will continue its efforts to serve as the bridge that connects the countries of North America and Europe with the countries of Asia.

In conclusion, I wish to seek your understanding and cooperation for what we are working for, and express my best wishes for the continued development of the Trilateral Commission.

* Noboru Takeshita is Prime Minister of Japan
Yasuhiro Nakasone
Current Global Issues and Trilateral Cooperation

If we survey global developments in April 1988 we find a need for us to explore a new framework of stability in both world politics and the international economy.

GLOBAL POLITICAL DEVELOPMENTS
The political situation is evolving gradually in a sound direction, particularly with regard to issues of peace and disarmament. The U.S.-Soviet agreement on the total removal of INF missiles, the approaching summit in Moscow, and the situation in Afghanistan are signs of a new current in world affairs. We will need actively to support and add further momentum to these trends.

As for the Middle East problem and the Iran-Iraq conflict, a deeply rooted distrust stands in the way of a settlement. We should extend our cooperation, so that, through the steadfast efforts of the parties concerned, a solution can be reached at the earliest stage, possibly within the year.

The Olympic games in Seoul will be the first to be held on a grand scale in many years, with the participation of countries from both East and West. The only countries to be unrepresented will be Cuba, North Korea and four others. This should make it an unprecedented athletic event. All the more reason why we should strive to make this festival of East and West a successful contribution to world peace.

We can identify two important movements which underlie these current developments. The first is the perestroika policy being pursued by General Secretary Gorbachev. We should recognize that the quest for peace has gained an increasingly serious tone in conjunction with this policy initiative. The second is the open-door policy which the Chinese government continues to push forward.

These two elements have no doubt played an important role in inducing a flexible response from the West. It will be important for us to foster these trends and ensure their continuation. Of course, we should be conscious of the Communist tendency to pursue strategically dictated policies. We should carefully examine underlying causes and motivations, and make an adequate response at each juncture. However, in view of the recent turn of events, I think we are allowed to make the above observation.

GLOBAL ECONOMIC DEVELOPMENTS
Turning to economic issues, we note that the free market economies, especially those of the Trilateral partnership, are running smoothly. According to GATT statistics, in 1987 world exports increased by 4 percent over the previous year, as compared to a 3.5 percent increase in 1986. This year, a comparable rate of growth is expected.

We see favorable developments in trading patterns as well. Japan’s trade surplus diminished in 1987 (by 4 percent in dollar terms, by 16 percent in yen terms) and in the United States, a significant increase in exports (11.5 percent in 1987) is at last beginning to reduce the trade deficit. In the EC countries, too, with a few exceptions, the trade imbalance is on a trend of improvement.

I should emphasize that consistent with these trends, the Japanese economy is shifting its course to growth led by domestic demand and the U.S. economy to growth led by external demand, which is a desirable pattern for the world economy as a whole.

The G-7 meeting in December 1987 recognized that with regard to the United States, Japan and West Germany, their trade imbalances are diminishing in volume terms. The Japanese Government expects its trade surplus to contract in fiscal 1988 by 12 percent to a figure of $81 billion. A factor which has caused delay in the contraction of the U.S. trade deficit, apart from excess domestic demand, has been inadequate adjustment of the NICs’ currencies against the dollar. However, since the Plaza Agreement of September 1985, the Taiwan dollar and the Korean won have appreciated by 41 percent and 18 percent, respectively. Furthermore, if we take the...

...there is perhaps a greater danger of a breakdown in security being triggered by an economic catastrophe....
Summit meetings and the OECD. If they sustain these efforts, there will be brighter hopes for the world economy in the years to come.

In this connection, there are three particular areas to which we should bring our attention.

First is the need to bring further stability to the international currency system. In order to avoid another “Black Monday,” we must at all costs avoid a sudden fall in the value of the dollar. I believe the dollar exchange rate should remain stable around a certain foreseeable level for at least 18 months. Achieving stable currencies will indeed be essential if we wish to avoid another “Black Monday.”

Secondly, in view of recent developments in the U.S. Congress, we will need to make a serious effort to roll back the present tide of protectionism.

Thirdly, it will be imperative to achieve success in the new GATT Round. I wish to mention this especially as negotiations have now reached a heated stage.

On the subject of currency stability, I believe a “reference zone” in certain ways is already being put into effect. At the present the exchange rate more closely reflects the economic fundamentals of each country than it has in the past. I understand that intensive efforts are being made in the United States to prevent inflation, high interest rates and recession, but it may be useful to promote further international cooperation to develop the idea of a “reference zone” which can be sustained for at least 18 months. Different arrangements could be contrived for this purpose. For example, the countries concerned could reserve foreign currency among one another through swap arrangements or issue bonds denominated in foreign money. This is an area calling for intensive studies.

In this connection, I wish to focus on the G-7, which has existed as a forum for free discussion and negotiation. In today’s world, there is perhaps a greater danger of a breakdown in security being triggered by an economic catastrophe than by military developments. From a different perspective, we should remind ourselves that economic strength has been the greatest factor contributing to Western supremacy over the East. Last year’s “Black Monday” was, in fact, a warning given by the market of a possible rupture in the framework of our cooperation as represented by the G-7. In certain ways, this forum has gained significance as a de facto economic alliance, perhaps of no less importance than an alliance in military terms. I believe it is with this awareness that we should try to manage the G-7.

As I explained earlier, there are brighter prospects for the world today in both political and economic terms as compared to a year ago, in April 1987. However, a factor of future uncertainty is the coming Presidential elections in the United States. The world will be watching with serious interest the

...unless there is a growth in the countries of the South, the world economy will not be able to expand.

American policies to follow these elections, especially with regard to protectionism and whether there will be a decline in the role of the United States in maintaining global security. The French Presidential elections are another important event in this regard.

EAST-WEST DEVELOPMENTS
We see that with the advent of the post-INF era, a process of restructuring has started in East-West relations. We have reached a crucial stage in terms of Western realignment and the formulation of a joint strategic scenario vis-à-vis the East.

NATO is grappling with its process of readjustment. I recall that in the past, its joint strength of will played an important role in achieving progress in disarmament, and hope it will fully respond to today’s important task. If there is an agreement at the Moscow Summit on START concerning the reduction of ICBMs and other strategic nuclear forces, there will be all the more an urgent need for readjustment. From these considerations, I believe we have reached an age where close consultations and policy coordination are imperative.

The assessment we give to General Secretary Gorbachev’s policies will be an important point here. The passion he exhibits for perestroika and disarmament should perhaps be duly recognized, and we should be sincere in the way we respond. At the same time, however, we should carefully consider how far the Soviet Government will be able to carry out its policies and we should analyze its underlying strategic interest over the long term, constantly
Sosuke Uno

Sosuke Uno is Japanese Minister for Foreign Affairs. Minister Uno received Members of the Tri-lateral Commission at the Ikura House for the closing dinner of the meeting on the evening of April 11.

keeping a certain reservation in this regard. After all, in the Soviet Union, the basic orientation of Marxism, Leninism and communism is not going to change. We should coolly remind ourselves that the policies they pursue are in essence measures contrived to supplement and renovate these doctrines.

Perestroika thus exists as a policy of partial reform. However, we cannot rule out the possibility that it may gradually lead to a situation that cannot be tided over by partial measures—a danger that exists from the Soviet point of view. (Recent ethnic movements are suggestive in this regard.) The question is, then, whether they will be able to sustain their reform policies under such contingencies. Those with vested interest, the nomenklatura, may show resistance. We will thus need to proceed with caution, analyzing the evolving circumstances and anticipating future developments.

A subject of serious study in Europe and Asia is conventional arms reductions, which is connected with the question of short-range nuclear forces. There is also the crucial issue of possible consequences for the American security commitment in Europe and in Asia. In the Asian region, there are issues involving the American bases in the Philippines and the maintenance of U.S. military forces in Korea. In Japan, while we continue steadily to upgrade our defense capabilities, we hold an important interest in maintaining the U.S. military presence in Japan. We believe these are topics for close consultation among the three partners.

THE NEED FOR TRILATERAL POLICY COORDINATION

In summary, we have begun to navigate through uncharted waters with regard to issues in politics, economy and security in general. This includes the Soviet Union and China—which have embarked on their policies of perestroika and external openness, showing a new, perhaps creative evolution of communism, unthinkable up until now. Under these circumstances, policy coordination among Japan, North America and Western Europe takes on particular significance.

We note that cohesion in the Communist world is fundamentally weak, although it may appear very strong on the surface. In contrast, in the free societies we find strong cohesion and solidarity at the fundamental level, whereas on the surface there appear at times ruptures and various problems.

The strength of the free world lies in its ability to overcome such difficulties. It has the ability to solve problems in a concerted manner, on the basis of mutual respect for sovereignty, freedom and democracy, as testified by its many achievements. Our important task toward the future, then, will be to further strengthen our solidarity and enhance the level of our policy coordination.

Up until now, the United States has adequately provided us with information concerning economic, political and disarmament issues, and has actively arranged opportunities for mutual consultation. While we highly appreciate these efforts, we should now try to strengthen these consultations, increasing their frequency at both the expert and political levels. After all, in the present age, we must proceed through uncharted waters.
GROWTH IN INDEBTED COUNTRIES
I believe it is time to expand the scope of our attention from past debt management to future development strategies. We should recognize that unless there is growth in the countries of the South, the world economy will not be able to expand. It has become evident that, given the cyclical exchange between North and South, vitalizing the developing economies is essential for world economic growth.

Accordingly, we will need to deal with the issues facing the developing countries and debtor nations from a new perspective. So far, these problems have been discussed in terms of the Paris Club, transforming debt into shares, the establishment of the Multilateral Investment Guarantee Agency, the management of interest payments and so forth. However, in the long term, the emphasis should rather be on supplying new funds to these countries appropriately, as may fit the conditions, and promoting development strategies for the future. With this in mind, Japan has announced and begun to take concrete steps. These include the recycling of $30 billion, extension of a grant of $500 million to African countries in the sub-Saharan region, and expansion of its Official Development Assistance (ODA) over five years (from 1986 to 1990) to a level of $40 billion. While keeping in mind its relationship with allocations for defense, I expect economic cooperation will be given increasing attention as an area where Japan should expand its contributions. This is indeed the direction we should vigorously aim for.

A PACIFIC OECD
The Pacific is a region which comprises newly ind-

tustrialized countries, developing countries, regional associations such as ASEAN, and countries which have concluded agreements on free trade, like Canada and the United States. It is an area marked by increasing dynamism and vitality.

This is an age in which we should try to coordinate the different cooperative relationships. We should consider the creation of a loose organization in which the exchange of capital, technology, goods, information, academic research, and culture can be promoted in an efficient and coordinated manner with a clear vision for the future. Indeed, it is not too early for the prospective member countries to undertake a joint feasibility study for this purpose, and to gradually put it into effect.

On the basis of the free flow of ideas and voluntary participation, something close to a Pacific version of the OECD could be created to meet the situation in the region. It could engage in coordinating activities in such areas as information, culture and economic cooperation, and facilitate the region's evolution toward the 21st century. And in this process, it should aim at promoting the vitality of the South. In this context, active cooperation and contributions from Europe would be indispensable. We hope Europe will be willing to extend its cooperation, making good use of its achievements and valuable experiences which should be most instructive.

STRENGTHENING EUROPE-JAPAN RELATIONS IN A TRILATERAL FRAMEWORK
Finally, with regard to the Trilateral partnership, I think we can congratulate ourselves on the steady progress it has made and its many accomplishments. At the same time, however, I believe the relationship between Japan and Europe has remained relatively weak as compared with the North America-Europe or the Japan-North America relationship.

In recent years, significant improvements have been made through mutual effort, and we find vigorous cooperation in many areas between Japan and the countries of Europe as well as the EC. We are now determined to exert further intensive efforts to bring the Trilateral partnership closer to a perfect triangle in terms of political, economic and cultural relations.

In conclusion, I wish to ask for the cooperation of our friends in Europe and North America so that our partnership may bring us further success and lasting prosperity.

● Yasuhiro Nakasone is former Prime Minister of Japan
"The East Asian Transition: Challenges for the Trilateral Countries" is the title of the final published version of a task force report to the Trilateral Commission discussed in draft form at the Tokyo meeting. The report was prepared by Richard Holbrooke, Roderick MacFarquhar and Kazuo Nukazawa, with the assistance of Evelyn Colbert. Holbrooke, now a Managing Director of Shearson Lehman Hutton in New York, was U.S. Assistant Secretary of State for Asian and Pacific Affairs in the Carter Administration. MacFarquhar, a leading European authority on China and former Member of the British Parliament, is now Director of the John King Fairbank Center for East Asian Research at Harvard University. Nukazawa is Managing Director in charge of international economic affairs of the Japan Federation of Economic Organizations (Keidanren), where he joined the staff in 1959. Colbert was Deputy U.S. Assistant Secretary of State for Asian and Pacific Affairs, and now teaches at the School of Advanced International Studies of Johns Hopkins University.

The following are excerpts from the introductory chapter of the report:

Just as the mid-'60s marked the beginnings of a period of extraordinary growth and development along the East Asian rim of the Pacific, so in the late '80s new challenges confront the region—especially the developing countries of which it is still largely composed. How these challenges are met will be of momentous consequence, not only to the developing countries of East Asia but also to the broader international system of which the Trilateral countries have been the principal custodians. The stability and prosperity of the region are of obvious importance to those Trilateral countries that are themselves Pacific nations—Japan, the United States and Canada. The stake of Western Europe is also large, perhaps more so than is yet recognized. In an interdependent global economy, the repercussions of the policies and economic health of such a populous and dynamic region are of major European concern.

And even strategic interests can no longer be contained within separate geographic boxes labelled "Atlantic" and "Pacific." East Asian contributions to stability and deterrence are of significant importance to Western Europe...

The achievements of the past two decades have given rise to new challenges today. Having successfully pursued trade-oriented strategies of economic growth, the East Asian developing countries now see continuing success threatened by global trends—commodity price declines, protectionism, and heightened competition for markets. Trade frictions have moved to center stage in domestic politics on both sides of the Pacific and could come to shadow political relationships. Great differences in stages of economic development remain obstacles to the development of regional mechanisms for dealing
collectively with economic problems. The global system—devised in the period of Atlantic dominance—has yet to adjust to the new economic prowess of East Asia, while some of the most successful East Asian economies are finding it difficult to adjust to the global responsibilities stemming from their economic achievements.

At the same time, the political institutions of the developing states of the region are facing new challenges. Long-time authoritarian leaders are approaching the end of their tenure in countries that lack regularized and tested succession procedures. Everywhere, members of a new, better-educated generation with changing values and aspirations are coming to the fore. And throughout the region, enhanced pressures for increased participation and diffusion of power are challenging patterns of authoritarianism and government control adopted in the past. The argument that new and developing countries cannot afford pluralism or democratic freedoms has become less compelling as internal and external threats have become less potent and levels of education have risen. The argument that only authoritarian governments can maintain the order, discipline, and dedication to national purpose that economic development requires has become less persuasive as long and unchallenged tenure in some countries has magnified opportunities for corruption and entrenched bureaucratic power, and has discouraged flexible adaptation to changing requirements.

Responsibility for adjusting to new requirements and taking advantage of new opportunities rests primarily with the East Asian developing countries themselves. Nevertheless, if the Trilateral countries recognize the value of the political evolution that is underway, they can adjust their policies and behavior in ways which can help create a generally favorable climate for positive change.

Chapter I of this report focuses on political evolution in the developing countries of East Asia. In this largely analytical chapter, we examine the links to political evolution of economic growth and the reduction of external threats. Governments have tended to be more responsive to pressures for economic liberalization than to demands for more open and participatory political processes, but political evolution is undeniably underway.

Chapter II is more policy-oriented, given its focus on issues of economic adaptation. The policy issues for Trilateral countries are more immediate here:

How should global economic arrangements be adapted to reflect the rising strength and rising obligations of East Asia? How should the adaptation challenges for Japan, North America, and the European Community be approached? What policy adjustments can be requested of East Asian developing countries?

The security environment in East Asia—the focus of Chapter III—has been more benign in this decade than at any time since the end of World War II. Armed, non-guerilla conflict across borders is essentially limited to Indochina; the potential for such conflict remains significant only between the two Koreas. The advent of Mikhail Gorbachev in the Soviet Union raises interesting questions. While military strength must be maintained, it will also be important to seek ways to encourage a constructive Soviet role in the region.

Chapter IV brings together our policy conclusions and recommendations for the Trilateral countries.

The full published report is available from the New York, Tokyo and Paris offices of the Trilateral Commission.
Mr. Pu commented first on the broader Asia-Pacific region, which "has achieved great economic success in the past twenty-odd years." But it is faced with "severe tests" over the longer term. Mr. Pu stressed the importance of some recommendations for Trilateral countries in the draft task force report that came before the meeting (see excerpts above). The United States, he stated, should "refrain from further protectionist measures." Japan should "assume greater global responsibility," including "improving the conditions of access to the Japanese market and of the transfer of technology." The European countries "have indeed a real opportunity for a greater presence in this region, which is certainly favored by China, and not only at times of difficulties between the United States and China." Most of Mr. Pu's remarks, which now follow, focused on the progress of the Chinese economy:

As economic reforms proceed and the country opens up further to the outside world, China's role in the economic development of the Asia-Pacific region will become more important. China is a socialist country and a developing country. The highly centralized planning system long in place after the founding of the People's Republic contributed to the establishment of an independent and relatively comprehensive industrial structure, but overemphasis on centralized decision-making, neglect of the role of market mechanism, and an inward-oriented development strategy led to low efficiency and lack of economic vitality.

Since 1979, China has embarked on an extensive program of economic reform and a policy of opening to the outside world. While public enterprises remain the major form of ownership, private enterprises and foreign investments are being encouraged as necessary supplements. Agricultural and industrial enterprises are being given greater autonomous decision-making power, as well as more responsibility for their own profits and losses. Market mechanisms are being introduced and developed, and the planning system is gradually changing from one of direct control to indirect control. Special policies and flexible measures regarding foreign trade and investment have been established in the coastal areas. It was recently announced that the coastal region, with a population of 160 million, and Hainan Island, which is almost as large as Taiwan in size, will be further oriented to the world market.

So far, results of the economic reforms and the
outward-oriented policy have been remarkable. During the nine-year period from the beginning of 1979 to the end of 1987, gross national product doubled and foreign trade more than doubled. But per capita GNP is still very low. China is still a developing country of the lower-income group.

China has set for itself the goal of increasing its per capita GNP to US$ 800-1000 by the end of the century. Judging from the experience of the past nine years, and assuming there will be no drastic worsening of the international environment, this goal could be realized. If so, China’s GNP will reach $1-1.2 trillion by the year 2000 (about the equivalent of Japan’s GNP in the early 1980s), although in per capita GNP terms China would still be a developing country of the lower-income group. (The recent report of the U.S. Commission on Integrated Long-Term Strategy estimates that, by the year 2010, China may become the second largest economy in the world in GNP terms, second only to the United States. I would very much like to think that would be the case, but it will not—this is certainly much more optimistic than our own estimates.) In any case, China will develop from a potential vast market into one of greater practical significance. During this process, China will import an increasing amount of capital goods, consumer goods, and primary products. To finance these imports, China will increase its exports.

A practical problem at present is that as a developing country, China is disadvantaged in its exports of labor-intensive products by various restrictions and by the increasingly protectionist tendencies of the developed countries. As a socialist country, China is further disadvantaged by restrictions such as those imposed by the COMC, and is in fact competition will inevitably result, but China’s relatively comprehensive industrial and agricultural system, combined with a relatively low overall level of development, will permit a division of labor—especially a horizontal division of labor—between China and countries in the region at different stages of development. The increase of imports into China of manufactures from ASEAN is a case in point. Of course, as a developing country, as well as a large country, China recognizes the need to consult and coordinate with other developing countries.

China is actively seeking to participate more in international economic cooperation. It became a member of the Pacific Economic Cooperation Conference in 1986. It is applying for resumption of its status as a Contracting Party of the GATT, and is actively participating in the new round of negotiations. It is prepared to assume its obligations as well as its rights under the GATT. It is true that China’s existing price system may cause some difficulties, but the increasing use of market mechanisms and the further implementation of price reforms will bring it closer to the GATT requirements. In that vein, we also hope that some of the existing discriminations against China will be eliminated.

The role of China in the economic development of the Asia-Pacific region will depend very much on its economic reform. The success of those reforms depends, of course, mainly on its own effort, including political reform, but a more favorable international environment is also necessary.

Pu Shan is Director, Institute of World Economics and Politics, Chinese Academy of Social Sciences, People’s Republic of China

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**China is actively seeking to participate more in international economic cooperation.**

sometimes penalized without any reason or cause on its part.

There is worry that China will compete intensely with other developing countries in the region, especially with some of the ASEAN countries which export labor-intensive products. It is true that some
1988 is, as I have been reminded many times, the year of Korea. Later this year we will host the Olympic Games; we have already, to the surprise of many, managed a very peaceful transfer of power; and we are also doing well economically. This year we will grow by about 10 percent, with no noticeable price increases, but we will continue to maintain a substantial trade surplus. We are constantly praised for what we have achieved, but at the same time we have had to pay the price for success: every aspect of our life and our society has been scrutinized in minor detail, and we have been constantly reminded by our friends that we now have new roles to play in the international trading community, as well as new responsibilities commensurate with these new roles.

Among the so-called Asian NICs, Korea has been singled out as the bad boy of the international trading community because it has pursued a mercantilist policy. Let me remind you, however, that we started running a surplus only three years ago, that the total amount is not that much, and that it’s not going to last that long. In fact, according to our projections, our surpluses will be much smaller over time for a number of reasons. First, we have embarked on a very expensive democratization process. Because we are accumulating surpluses, many people in Korea think that we have become very rich and that the government has lots of money to spend on all kinds of projects. Competing interest groups are going to put pressure on the Korean government to use these savings for many purposes. The new government will not have the ability to accumulate surpluses, no matter how much they may like to. Second, we realize that accumulating surpluses is not very sound policy. The policy objective, as the textbook tells us, is to improve the welfare of the people. We have no intention of saving a lot and then sitting on a pile on American dollars or securities. There is no point in accumulating surpluses as the Taiwanese and Japanese have done and continue to do. I think it’s a ridiculous policy.

Many people claim that South Korea is practicing protectionist policies, but if you look at our situation and our national characteristics you’ll see that we cannot afford to be protectionist. We have no natural resources to speak of, and we are surrounded by superpowers. The only way that we can survive is to trade with other countries and remain rather neutral.
If you look at our liberalization record for the last several years, you’ll be amazed. While the Americans and the Japanese are still talking about beef and citrus quotas, by the end of this year we will have completely liberalized our beef market to the United States. Except for a few agricultural commodities, we can import anything we want. Tariffs have been cut across the board consistently, and we will cut them further this year. As far as manufactures are concerned, if there are any restrictive measures, they will disappear by the end of this year. Although we still have to ward against some agricultural products, this is due to domestic political problems and has nothing to do with our trading relations with foreign countries. Remember that 20 percent of our population lives in rural areas and claim to be farmers, and about 11 percent of our GNP originates from the agricultural sector. If you are going to live with democratic principles, if you are going to elect a national assembly, and if you are going to resolve issues by consensus, you simply cannot ignore 20 percent of the population and their demands. Except for agricultural products, our trade regime is a very liberalized one.

Now I would like to turn to the exchange rate problem. Since the beginning of the year we have appreciated our currency vis-à-vis the dollar by roughly 10 percent. Still we are continually pressured by the United States to appreciate further. The question is, how much is right? According to the Institute for International Economics in Washington, it used to be 15 percent. I don’t know how much is proper this year, but in our view, the exchange rate is not the only instrument for correcting resources away from tradable sectors to the so-called non-tradable sectors, to build more houses, hospitals, roads, and communication facilities.

A country like Korea—which is accustomed to having the government conduct industrial policy—isn’t going to respond very well to fluctuations in the exchange rate. The uncertainties created by the exchange rate changes are already driving the business community crazy; they don’t know where and how much to invest. In other words, we can do without these uncertainties. Nonetheless, if exchange rate changes could resolve the trade imbalance, we would pursue them. But in my view they are not going to, unless we appreciate our currency by something like 50 or 100 percent, which is not possible. Instead, we will work very hard to re-allocate resources.

Some people have voiced doubts about how durable this democratic regime will be. I can assure you that it’s going to be very strong, and that there will be no turning back. But we need your help in reducing the pressure put on us to open our markets and to appreciate our exchange rates, especially from the United States and European countries.

Park Yung-Chul is former Senior Secretary to the President for Economic Affairs, Republic of Korea.

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...we cannot afford to be protectionist. We have no natural resources to speak of, and we are surrounded by superpowers.

this imbalance, especially when you consider that in the case of Korea, which exports something like 45 percent of its GNP, appreciation could have serious effects on the economy. Instead, we are telling our American friends to give us time to use fiscal policy to reallocate our investment priorities. We will take
REVIEW OF TRILATERAL COOPERATION AND FUTURE CHALLENGES
Koichi Kato
Domestic Politics and Trilateral Cooperation

It is only in recent years that the international community has shown much interest in Japanese domestic politics. Japanese still find themselves having to explain some of the basic features of our political system, which appear strange to many Westerners. The lack of understanding is illustrated by two popular images of the Japanese political system, which are almost direct opposites. One image is that of Japan as a monolith, symbolized by the term “Japan, Inc.” Recently, another misleading image has emerged. Japan, it is said, has basically no authoritative central decision-making power. This is an image of “Japan, Unincorporated.”

The main features of our political system, however, are common to all democracies, even though there are special Japanese characteristics. Japanese politicians must secure votes from one of the world’s best informed and most literate electorates. Successful politicians require the support of interest groups to help finance their campaigns and turn out the voters. There are vocal opposition parties; they are not capable of acquiring a majority, but they can force compromises. Politics in Japan, as in other democracies, is the art of the compromise.

The purpose of these remarks is to discuss changes in domestic politics that will affect trilateral cooperation. Over the past decade or two, two trends in Japan are particularly important. First, the influence of politicians has increased, while that of the bureaucracy has declined. Second, a process of internationalization is occurring in both the political world and in the bureaucracy.

INCREASING IMPORTANCE OF POLITICIANS
The growing power of politicians reflects the increased diversity of political values and interest groups at the domestic level. It also reflects the growth of international pressures and demands placed upon Japan from the outside. As a result, more issues require political compromise or arbitration, as opposed to technical or administrative resolution. The most prominent issues facing Japan in its trilateral relations—for example, the overall size of the budget, the amount spent for defense and foreign aid, and issues of market access to such sensitive sectors as agriculture and construction—require political decisions.

It is the responsibility of the Liberal Democratic Party to make these political decisions. No legislation in Japan can be enacted without the LDP’s approval. This places a heavy responsibility on my Party. We sometimes wish there were a President, so that we could take the most popular position, knowing that it would be vetoed if it were irresponsible.

I can understand that outsiders might be concerned about the growing importance of politicians in Japanese decision-making. One source of this concern might be that an LDP politician’s first consideration must be the constituents who elect him. This, of course, is not unique to Japanese politicians.

A second concern may be more special to Japan—that is, a concern that grows out of the importance of consensus in party politics. In the LDP there must always be a consensus. A simple vote is never used in party decision-making. To outsiders, this practice may appear slow and unproductive.

INCORPORATING BROADER INTERESTS
I believe, however, that the increased role of politicians is healthy and essential if Japan is to be a strong trilateral partner. I also believe our system is as good as any in producing effective compromises between domestic and international interests. Let me cite my reasons.

First, the consensus system allows for policy changes in response to changing pressures. Consensus is not the same as unanimity; it does not mean political stalemate and stagnation. In practice, the consensus evolves by persuading interested parties to leave the final decision to senior leaders. These leaders take into account broader domestic and international considerations. The result is a compromise. Everyone must make some sacrifice.

I feel that the consensus system, combined with administrative guidance, in fact, appears too smooth. Outsiders generally are unaware of the intensity of domestic political controversy, because political stress and sacrifice are not easily visible in the consensus system. But we have made many difficult decisions, for example, the imposition of voluntary export restraints on automobiles and the liberalization of agriculture.

Second, although reaching a consensus is time-consuming, once reached, it is effectively enforced. There is a strict rule that once a decision is made, it is binding on all party members.

Third, LDP politicians are pragmatic. There are factions within the party, but not ideological factions. Members know that they cannot take ideo-
logical positions. They are therefore prepared to respond to reasonable requests.

Fourth, there is a growing international awareness in Japanese society, that includes and affects politicians. Politicians who blindly defend narrow constituent interests will not be respected by their LDP colleagues or by the voters at large. The party's leaders know that broader domestic interests and international pressures cannot be ignored.

One sign of change is that many Diet members are said to be secretly studying English—secretly, because for a politician to speak English still carries some risk of appearing "showy" and above the constituents. But they believe that in the future, voters will expect their politicians to be able to deal more effectively with the outside world.

Fifth, an important process of internationalization is also going on within the bureaucracy. In the past 15 or 20 years, the transformation of MITI and the Finance Ministry has been quite remarkable. Other more domestically oriented ministries are rapidly becoming more international in their outlooks. The bureaucracy, in this regard, is ahead of the politicians.

DOMESTIC CONSTRAINTS
The trends in domestic politics are therefore, I believe, consistent with a progressively stronger Japanese role in the trilateral world. Of course, domestic politics in Japan, as it does in other democracies, often acts as a constraint on that role. How serious a constraint is it? In some important areas, such as the growth of foreign aid programs and increased financial support for American troops in Japan, it has not been a major constraint. These questions are not political issues in Japan. In the case of agriculture, domestic interests have staunchly opposed market liberalization for some key commodities. Yet Japan has the lowest ratio of food self-sufficiency of any major industrial country, and is the largest importer of agricultural goods in the world. It is hard to make the case that other Trilateral democracies have been tougher on their farmers than Japan has.

In contrast to other Trilateral countries, Japan has been struggling to take actions to increase trilateral cooperation. We often, however, have the impression that our Trilateral partners are engaged in a defensive struggle, fighting forces that would make them less able to cooperate trilaterally. Granted, the starting points are different, but we are swimming upstream, not just attempting to maintain our position. Japan has become a far more important trilateral partner over the past 15 years, and a more internationalized society. Many forces are reshaping Japan—increased travel abroad, the growth of overseas investments, and the internationalization of Japanese company production.

I want to close with a reference to the LDP's Policy Affairs Research Council's subcommittee on agriculture, which I chair. The members of the subcommittee find themselves in a great dilemma. They want to be good world citizens. They also want to defend the interests and jobs of Japanese farmers. Some 150 and LDP Dietmen attend the meetings of our subcommittee, where the mood recently has been very sobering. The members are wrestling hard with their dilemma. To me this is a good sign for trilateralism. It shows that Japanese politicians are serious in their efforts to balance domestic and international interests.

◆ Koichi Kato is a Member of the Japanese Diet, and former Minister of Defense
John D. Rockefeller IV
Prospective New Consensus

Senator Rockefeller described an America “extraordinarily ambivalent about the state of our country and its place in the world.” He then looked to the future:

I am hopeful that with new leadership, a new consensus will emerge after the 1988 election: a consensus that sees the world realistically; that sees both our national interests and our international obligations, and balances them fairly; that is frank and firm with our trading partners, but frank and firm with our people as well.

Hopefully, that new consensus will include an understanding that:

—the United States cannot keep its place in the world without a strong economy, and we cannot maintain a strong economy on the current course. America can no longer buy without selling; consume without producing; borrow without saving.

—a great nation faces up to its problems without looking for scapegoats. It is not the fault of the Japanese if we have a massive budget deficit and a microscopic savings rate. It is not the fault of the Koreans if we have let our education system slip. It is not the fault of the European Community if we don’t have a national commitment to retrain our workers. I believe that the next four years will see America, to a commendable degree, face up to its home-grown problems.

—but not every problem is made in America. We cannot be the sole guardians of the world trading system while everyone else pursues their national interests. We cannot accept continued mercantilism in Asia or an integrated internal market in Europe that maintains external trade barriers. The days when we were prosperous enough to ignore such policies are long past; the days when we were able to serve as the world’s designated consumers are over. The decline of the dollar has helped American exports, but a determined commitment to market opening must also occur. In the past, America was committed to a free trade policy, and we assumed that others would follow. In the future, our trade policy will be more oriented toward the concept of reciprocity where our trading partners will have to show a degree of openness similar to our own.

—nor can we continue to be the overwhelmingly dominant guardians of the world security system as we were in the past. Those who are now able to share the cost of protecting the Free World will have to do so, perhaps through imaginative and innovative measures.

The United States will adjust to this different world where we are no longer the hegemonic power. We have no choice. But the price of that adjustment will be for our partners and allies, represented here in the Trilateral Commission, to take on added responsibilities.

Every person here could spell out in vivid terms the domestic realities in his country that stand in the way of broad cooperation. The truth is that the need for cooperative and coordinated policies has never been greater, and the sooner our national leaders and our politics recognize this, the faster we can begin to deal with the challenges confronting us.

● John D. Rockefeller IV is a Member of the United States Senate, and former Governor of West Virginia
Piero Bassetti

Europe is a Necessity

A very important stimulus for the process of European integration has come from the rapid creation of a European industry which is global in importance. Indeed, in 18 months, from '86 to '87, more than 50 large European industrial groups have arisen. The European companies realized that they would not be able to contend with U.S. and Japanese competition without a continental dimension, in terms of market shares, production, and market structures. In contrast with 15 or 20 years ago, Europe today is no longer an option but a necessity.

* * *

The construction of a European political identity will certainly be a long and at times chaotic process. In the first period, it is probable that a Europe moving at two different speeds will develop still further, with a nucleus of European countries, drawn along by French-German bilateralism, making quicker progress with regard to industrial cooperation, currency and defense. The process of European unification will certainly meet a lot of opposition and problems from nationalism, bureaucratic interference, and sectoral interests. But, as one of the founders of Europe, Jean Monnet, said, "we are involved in a process and the process is much greater than the problems."

* * *

The prospects of a consistent weakening in the U.S. leadership and the evolutionary process that has recently begun in the USSR impose upon the EC the necessity of taking upon itself a role of great importance in consolidating the East-West rapprochement. In order to be effective, not only with regard to East-West relations, but also to favor a greater coordination of the world economy, the European Community must now provide for itself two elements which are fundamental for its proper sovereignty: defense and currency. First, the choice to develop a "European Pillar" within NATO, in the context of European political unification, seems indispensable to guarantee an effective management of defense. And secondly, a European currency is equally important as it would allow Europe to play a part in the creation of a new monetary order, by means of a convergence of the area of the ECU, the dollar, and the yen into a sort of EMS on a world basis.

* Piero Bassetti is Chairman of the Federation of Italian Chambers of Commerce, and former Member of the Italian Chamber of Deputies
Ritt Bjerregaard
From Hierarchy to Decentralization

The point of departure for my speech about domestic realities is European, more specifically Scandinavian and Danish. I come from a small country of only 5 million inhabitants, with one of the world's highest per capita incomes, and few conflicts of a social, religious, economic, cultural or racial character. From that point of view, the realities might appear somewhat different than they would from the United States or Japan, or from one of the former European great powers.

The starting point for considering domestic political realities is the changes in social patterns which, measured by an historical yardstick, are proceeding rather quickly. In the past couple of decades, we have seen the growth of a new middle layer of increasingly well-educated and often socially engaged people, in relatively stable positions, with well-paid work which they feel a responsibility to perform to the best of their ability. This group of people, employed in service occupations, are about to replace the industrial workers as society's center of gravity, and this means a change in the values which characterize political life. It is somewhat characteristic that women play a greater part in this pattern.

Well-educated women have become an important part of the labor force—a shift which carries with it changes in the social structure of a profound nature, of an extent which we cannot yet fully understand. How will the family be affected when both parents pursue professional careers? What values will the next generation develop, children whose parents both work outside the home, and who have received the greatest part of their upbringing and influence from adults in institutions, or from sitting in front of the television? I do not believe it follows that they will be worse adults, but it is certain that they will be different, and that the demands they make upon society will be different. Some of the new tendencies have already begun to appear.

It is characteristic of the new middle layer that they do not have the same attitude toward authority that was held by previous generations. This is true on all levels: in the family, on the job, in relationship to public authorities—both local and national. Perhaps this is due to the greater female influence. Perhaps it is because the work in which the new middle layer is employed makes different demands than industrial production did—demands for cooperation, initiative, a sense of responsibility, which are things which are not in harmony with hierarchical structures. There is no longer the same respect for authority, for father figures, which existed before. This is clearly evident in a changed attitude towards leaders and administration. During a lot of Trilateral meetings, I have often heard considerations voiced about the importance of leadership, and discussion as to whether this or that candidate in the current election would be the right leader. I have even heard complaints that in Europe there is a lack of great leaders. This opinion of leadership is not shared by the Europe I know. In our part of the world we have had, as you know, some experience with great leaders. It's not so long ago that we got rid of the worst of them: Hitler, Mussolini, Stalin, Salazar, and Franco. None of them did any good; and we do not miss any of them, any more than we miss the notion that society must be led by great men. Men who seek to fill positions of greatness are considered, in the time of the sisters, nothing so much as overblown and ridiculous, something like when the he-baboons in the zoo exhibit their red backsides.

In place of the hierarchical structure, we are trying to develop more horizontal structures of leadership. A good example is Scandinavian Airlines (SAS), which turned around a stagnated corporate chain of command into one that emphasizes delegation of responsibility and decision-making competence. To miss this trend is politically dangerous. Numerous movements in recent years further illustrate what I mean. We have had the peace movements, the women's movements, and the environmental movements. These are expressions of a renewed engagement in societal conditions; and at the same time, they represent our best defense against any new risk of great leaders getting on our backs again. They reflect a desirable mistrust of the authoritarian pyramid. I view their appearance and advance as an unconditional good which opens up possibilities for the growth of democracy.

Discussions about military modernization in connection with the recent INF agreement illustrate the peace movement's status and influence. Despite the peace movement's apparent quiescence, I have no doubt that German Chancellor Helmut Kohl's policy is an expression of an extremely realistic attitude towards them. They will, without doubt, be mobilized by any renewed arms build-up. The West European countries will be unable to go forward with their previous defense policies when they, time
after time, provoke the broad-based peace movements as a response.

The diminishing interest in abstractions and intellectual neatness amongst the new middle layer is evident both nationally and internationally. It makes the idea that the EEC should develop into a United Europe as unlikely as the old idea of a Fatherland Europe. The Europe that is developing can be described more accurately as a regional Europe, a place where practical cooperation between the various areas, both geographic and professional, will play a greater role than speculation or state affairs. I am fully aware that this is not what you have heard from other speakers, but I tend to think that they expressed more wishful thinking than reality.

The trend I’ve described also carries with it a change of opinion concerning East-West relations. The enemy image which has been built-up by and around the Soviet Union and Eastern Europe can scarcely be maintained in a more pragmatic time. The Soviet leaders, seated under Gorbachev, will have to bungle incredibly to prevent relations between West and East Europe, and between Western Europe and the Soviet Union, from not being significantly de-dramaticized in the coming years. Many exciting opportunities to soften the divisions between East and West Europe will open, and thereby, hopefully, a further normalization will emerge out of the disarray in which the Second World War and the superpowers left Europe.

So Europe’s problem is not a lack of great men; it’s not the absence of a united Europe, which has the effect of slowing things down, but rather entrenched vested interests, both in agriculture and in industry, that have trouble adjusting to the new realities. The phenomenon is not particularly European, but it has perhaps been allowed to continue longer in Europe, where representatives of powerful unions have been able to support the owners of established industries in a fight for protection of the status quo, and where agriculture, with the help of support from the EEC, has been able to postpone the necessary structural adjustments, apparently forever.

One can hope that the development of the internal European market, which is surely a very needed development, will continue. There is still a significant risk, however, that the overblown rhetoric about a Europe which must speak with one tongue will once again postpone a pragmatic modernization in favor of a bureaucratic vision.

So the perspective I see for Europe is a pragmatic one. Europe’s force is manifold: The dangers of war between the European powers which plagued our part of the world until 1945 have vanished with the reduction in status of the previous superpowers, and there is nothing desirable in involving ourselves in a call to build up a new European position of military power. European peace is protected by the differences amongst our countries. To attempt to erase the many linguistic and cultural differences in Europe would be a truly bad idea. The difficulties which these differences lead to can be relatively easily overcome by providing people with a proper education, so that everyone can manage at least two or three languages, and by seeing to it that young people have opportunities to live for longer periods in more than one country. Let’s stay with pragmatic solutions, partly because they are the only possibilities, and partly because they are the best.

The advantages of a divided and varied Europe are obvious: a decentralization of the decision-making process secures greater authority for the individual and provides possibilities for a richer existence. Our varieties allow for experiments in forms of living and increased tolerance for all possible types of human activity. The absence of common ideals and a variegated array of religious beliefs hinders standardization and unnecessary discipline.

There is reason for European optimism. With a little bit of success, and a little bit of luck, there is every indication that we will be able to continue to keep ourselves free of great leaders and huge power concentrations. In the coming years, we will also be able to develop further that which has been the most important contribution from our part of the world to human civilization: secularization, individualism, and a democratic form of government.

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Isamu Miyazaki

Isamu Miyazaki prepared a background paper for the review session focused on international economic management. The paper set out some of the major developments of the past 15 years; it then turned to the need for renewed Trilateral cooperation in the present situation, and concentrated on Japan in particular:

The most urgent task for Japan is to correct the huge surpluses in its international balance of payments. The Maekawa Report, despite its shortcomings in specifying targets, provided the basic concepts needed for this task.* In the past year, there has been a change in direction in the Japanese economy, reflecting the high yen, the ¥6 trillion fiscal stimulus in 1987, and market opening programs.

The Japanese economy is generally expected to grow around 3.5 to 4 percent in 1988. My own forecast would be considerably above 4 percent, assuming that the government continues to take positive measures, that crude oil prices remain about $16 a barrel, and that the exchange rate holds in the range of 120-130 yen/dollar. Domestic demand's contribution to GNP growth would be about 6 percent, and the contribution of external demand would be about a negative 1.5 percent. This would be a sound growth mix that the international community would find convincing. The problem is that Japan must make strenuous efforts to maintain this growth pattern for roughly the coming five years.

It goes without saying that expanding domestic demand through fiscal stimulus will not by itself increase imports sufficiently. It is still necessary to abolish or liberalize restrictive practices in import markets. In particular, liberalization should be promoted in agriculture, the construction industry, and the distribution system. These three sectors are the most conservative, the most heavily subsidized, and the most inefficient parts of the economy—not only in Japan but also in other countries. Their further liberalization is desirable for expanding imports of agricultural products from the United States and more labor-intensive manufactures from the South. But, more importantly, liberalization would allow the Japanese people to benefit substantially from their strong currency.

The failure of the Japanese to benefit fully from their economic growth is apparent in the large discrepancy between Japan's strong economy by international standards, and the belief in Japan that the Japanese people do not have comparably high standards of living. Japan leads the world on the basis of its per capita GNP (at current exchange rates), net external assets, low unemployment, and low inflation. Japan also appears to be a very desirable place to live on the basis of such social indicators as its low crime rate and equitably distributed income.

However, other social and economic statistics tell a different story. Japanese work longer hours than citizens of other advanced industrial societies. Housing is in short supply. Public infrastructure is deficient in such areas as roads, sewage systems, and urban parkland. The absolute cost of living for the household is high by North American and European standards. Using purchasing power as the standard of international comparison, Japanese incomes appear to be at about 75 percent of the U.S. level.

The high cost of living is probably attributable to the insufficient liberalization of imports, the complicated and inefficient distribution system, the protection of domestic industries, and other factors. These systems and practices, some of which were once justifiable, no longer serve the Japanese economy and constitute an economic burden on Japanese consumers and taxpayers. If Japanese are to feel that they enjoy a standard of living that matches their national economic strength, these obsolete systems and practices should be reduced and eliminated. It is precisely here where one of the fundamental keys to the problem of insufficient domestic demand lies. The longer term expansion of domestic demand together with a liberalization program will help correct Japan's imbalance in international payments.

At the beginning of his paper, Mr. Miyazaki wrote of "the need to make 1988 a watershed year, in which new mechanisms of international economic coordination are established for the coming decade or two." At the end of his paper, he returned to this broader discussion and sketched a "coordinated action program":

*As one of the Maekawa Report's drafters, I strongly support the report's recommendations. The report, published in April 1986, proposes, in order to make the Japanese economy more compatible with the world economy, that it should: expand its domestic demand; reorganize its industrial structure; further liberalize its markets; import more manufactured products; liberalize its financial markets; and expand its overseas economic assistance.
Many compare today's economic situation with that of 1929 and predict its recurrence. Certainly, there are several extreme similarities, such as the abruptness of the stock price fall and drastic changes in some other economic indicators. However, since today's economic and social systems and mechanisms differ substantially from those of 60 years ago, a strict comparison of specific economic indicators is not very significant. This, however, does not mean that the situation is not dangerous. The key to reducing the danger lies in appropriate international coordination.

When we examine the national economic policies of the major industrial countries in the short-term, we cannot be optimistic. In the United States, where presidential and congressional elections take place in 1988, it is doubtful that rational economic policies can be consistently implemented. In Japan, because of its conservative outlook, policies to sustain domestic demand and further market-opening measures may not take place at the needed pace. Economic policymakers in Western Europe are even more self-centered than those in the United States and Japan. Nevertheless, I continue to hope that under pressure from still nervous markets, the advocates of stronger international coordination will override these impediments.

c) Currency stability
Stability of currency exchange rates and structural adjustment reinforce each other. Coordinated interventions to stabilize foreign exchange markets have only the short-term effect of buying time. Reliance on interventions alone can bring neither currency stability nor the needed structural adjustment. Nevertheless, interventions can be helpful in dealing with short-term instability. Because of this, the major countries should "accept the responsibility for sharing burdens in risks" by financing a joint intervention fund to maintain exchange rates at around the levels that would encourage macroeconomic equilibrium.

d) The debt problem
In order to solve the serious debt problem of the developing world, the basic premise should be to strengthen export competitiveness and the growth potential of the debtor countries. Meanwhile, it is important for the industrially advanced countries, particularly those enjoying trade surpluses, to formulate fund-recycling programs. Even more important is for the trade surplus nations to increase their imports.

a) National structural adjustment toward a common objective
Today's international disequilibria can be reduced through policy coordination among the major countries. Once equilibrium is restored, a mutually complementary division of labor is essential in order to maintain stability. If possible, all the major countries should establish mutually consistent programs of structural adjustment, similar to the program sketched out in Japan's Maekawa Report. Accordingly, structural adjustment should be pushed forward both in the medium-term and in the longer-term in each country.

b) Market-opening and policy harmonization
Market-opening is indispensable to make the programs of structural adjustment more efficient. Concurrently, various systems in the major countries—such as their tax systems, their anti-monopoly laws, and their labor practices—should be harmonized along mutually understandable common lines.

C. Fred Bergsten

Fred Bergsten also looked back over the 15 years, concentrating on the exchange rate regime and trade liberalization. He then looked ahead, over the next ten or fifteen years, pointing to "a big agenda" in these areas: "getting a more stable and effective monetary system that will avoid huge imbalances and disequilibria," and "getting the trade process back in a liberalizing direction through both multilateral and bilateral means." But needed shorter-term adjustments loom very large:

I want to put to you the proposition that we will never get to either of those long-term tasks unless we are much more effective and determined in our efforts today, tomorrow, and for the next year or two, to deal with the continuing massive imbalances that now face the world economy. The U.S. external deficit is still running at about $150 billion. The Japanese surplus, even on Isamu Miyazaki's fairly optimistic forecast, will still be at about $75 billion two years from now. That means the United States
will have to keep borrowing $12-15 billion per month from the rest of the world to keep its own economy afloat. It means that Japan's creditor position will be rising by $70-80 billion further per year.

The financial implications of those continued massive flows create a sword of Damocles hanging over the world economy. Literally at any moment, for whatever reasons of confidence dealing with the economy or the political outlook in the United States, the foreign capital flow could dry up, our interest rates could shoot up, and our economy, which is otherwise proceeding on a reasonable course, could be pushed into a sharp downturn. If that happened, protectionist pressures would be reignited and the trade system would face new shocks.

What's the size of the problem? The United States needs a correction of something like $200 billion in its trade position just to get its current account back into balance—not to get back to our traditional surpluses, not to reduce our external debt, but simply to stop the buildup of our external debt, which anyway is going to get close to a trillion dollars. We need a $200 billion swing because we now have a current account deficit of $150-160 billion and the increase in our debt service cost, by the early '90s, will add another $40-50 billion. It's a very big swing.

How should we allocate to surplus countries the counterpart reductions to the American deficit improvement? Japan would have to accept a cut in its trade surplus of something like $100 billion (the increase in its investment income, as the world's largest creditor, would still give it a comfortable current account surplus); Germany, about $70 billion; the Asian NICs—Taiwan and Korea—about $30 billion. That's simply the mathematics of it, unless one is very optimistic about new capital flows to the Third World.

If that's the objective—a $200 billion swing in five years—how do we stand now? How much progress has been made? I know of no model anywhere in the world that suggests that, on the basis of current exchange rates and current policies, the U.S. external deficit will get below $100 billion. Indeed, the IMF, the OECD, and other well-respected forecasters don't see the U.S. deficit even getting down close to $100 billion. And so, at best, despite all the effort to date, we've only achieved one-fourth to one-third of the correction that's required just to get things back to balance, to stop the buildup of these enormous international debts and imbalances. That is not a sustainable position, and therefore considerably more effort is required.

There are only two scenarios under which it can be done. The more constructive one, recommended by Isamu Miyazaki, involves changes in the underlying economic policies. First and foremost, the United States reduces its budget deficit over the next three or four years by about $40 billion per year, to get it down to a very low level. That, in turn, would take the external deficit with it, and would enable us to move back close to equilibrium. If rapid growth of domestic demand in Japan continues, and if Germany and the rest of Europe will expand rapidly the rate of growth in their domestic demand, they will begin pulling their weight in this international adjustment process as well. The Asian NICs would have to take some steps—domestic demand growth, some currency adjustment, but if that set of policies is carried out, then we will not need a great deal of further currency correction (maybe another five to ten percent on the trade-weighted dollar, but not very much). So this scenario deals with the underlying policies to bring about a lasting balance over the next five years. It will take five years, but the policies need to be put in place in the near future to give confidence to the markets that a stable outcome is evolving.

The only other scenario, in the absence of those changes in underlying policies, is a big further change in the exchange rates. I would predict, though not advocate, that in the absence of changes of the type I mentioned in underlying policies in the United States, continued expansion in Japan, and a rapid pickup in Western Europe, the dollar would probably fall 20-30 percent over the next couple of years—because the markets would perceive that as the only alternative to get the necessary adjustment, even though that would be in my view wholly undesirable. It would, in fact, probably be the only available option.

We face a stark choice at this point. If you agree with me that much further adjustment is required
because the financial side of the imbalance is simply unsustainable, then it's a choice between moving our underlying policies or throwing up our hands and leaving it all to the exchange rate, with the enormous financial and economic instability and problems that would cause.

In practical terms, and barring a crisis, the United States is not going to address its budget problem in 1988. That means that Minister Miyazawa and Secretary Baker and their colleagues will have some bumpy times ahead. They will have to do some more joint intervention and some jaw-boning and some manipulation of monetary policy, and they'll try to skate through 1988. But unless the U.S. government newly elected at the end of this year, and the governments in Germany, other places in Europe, and Japan push ahead the necessary policy changes, by a year from now, at the latest, my guess is the markets will throw up their hands and financial instability will result.

We know one thing from history: the adjustment will take place. The only issue is how and when. Do our governments have the wit to take constructive policy steps in advance, or do they simply let the crisis hit? If they don't take the policies in advance, we will have more market hits like the stock market collapse of the fall of 1987, and the bond market collapse of early 1987—only this time it'll be worse. So the choice is before us, in the short run, to take the policy actions of the type mentioned, but for the longer run, to create a monetary system and a new momentum for trade liberalization that will avoid the onset of crises of this magnitude in the future.

On Japan, he echoed a point of Isamu Miyazaki:

I think the question that foreigners are asking of Japan is whether the growth of domestic demand will be allowed to continue, given the fiscal policies that are in place. We are familiar with the notion in Europe that the fiscal deficit should not rise at a time when it is already at a considerable level. There is a worrying signal in the efforts in Japan (as in Germany) always to restore, through other tax increases, the tax cuts that are made as part of tax reforms. So I want to raise as a question whether fiscal policy is sufficiently expansionary as it is now defined in Japan.

Mr. Thygesen then turned to Europe:

In Europe we are more self-centered, Mr. Miyazaki says. It is certainly true that there is an absorption in Europe with the internal problems of the European Community, particularly in completing the internal market. But I would interpret this obsession in Europe as a positive signal, as an initiative that is comparable to the supply side measures that were part of the ambition of the United States in the early '80s, and also to the market opening policy embodied in the Maekawa Report.

We don't have a really good estimate of the effects of the creation of the internal market, but the European Commission is publishing studies of sectoral developments that are likely as a result of the internal market. All one can say is that the removal of outright frontier impediments to trade, and the restructuring that greater competition will encourage within Europe, offer opportunities for very substantial gains that will not only be available to European countries themselves, but also to foreign-

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**Niels Thygesen**

Niels Thygesen stressed the need "to translate the message that Fred Bergsten has spelt out to us into domestic realities. We have to present these policies in the enlightened self-interest of the countries that undertake these commitments"—as they indeed are. Mr. Thygesen sought to "inject a slightly more optimistic tone" about the U.S. balance of payments:

Fred Bergsten said that there is no model that can produce a balance of the U.S. current account at current exchange rates without very major policy adjustments. I wonder whether we do not, in our models, tend to underestimate the effects of adjustments in American industry that took place in the first half of the 1980s. We see in surveys from the United States that the manufacturing industry—as a result partly of the decline of the dollar, but also as a result of the restructuring and the shock to productivity that the rise in the dollar earlier in the '80s provoked—is quite optimistic about the outlook. Also, maybe it is a sufficient aim to stabilize the U.S. current deficit at a much lower level than it is today, but not to bring it down to zero.
ers exporting to Europe. The estimates are that the effect over four or five years, when the program has been put in place, will be to create at least 2 million more jobs. If these opportunities are used wisely by stimulating demand to leave fiscal imbalances approximately stable, then this figure will rise to 5 million jobs.

This internal market program is an engine of growth that can provide a positive synergy between regional liberalization and global trade. That was the experience, I may add, of the European Communities in the 1960s when lowering its internal tariffs.

Within an area of high trade like Europe, we cannot leave exchange rates to the markets, as is done between the dollar and the yen and European currencies. Exchange rates must be fairly stable; and with financial flows growing in importance within Europe, they must become increasingly fixed. Then the case for the common monetary policy becomes very strong. We are still quite some way from a common currency and a European Central Bank. There are different conceptions in Europe of how this could be achieved. But there is certainly a concern with the systemic issue. We've seen in recent months initiatives by the French Finance Minister and by the German Foreign Minister on the setup of a European Central Bank.

It is significant that leading politicians consider such ideas worthwhile for presentation to the public. They should not be interpreted as agreement on the details of either the form or the substance of a European Central Bank. But the idea of having stable exchange rates is, of course, based on the observation over the past ten to fifteen years that national inflation rates are not immutable different within Europe, that external shocks affect us all in much the same way, and that there is therefore a strong case for moving to fixed, or nearly fixed exchange rates, and accepting the implicit interdependence of other policies to which this leads.

There is an interrelationship here between the design of a global system and a European monetary organization. If instability in global financial markets remains considerable, and contractionary effects from shock appreciation of European currencies reappear, then stability within Europe will obviously be difficult to achieve, with some countries still seeing Europe as a constraint more than as an opportunity. There is also an interest in the rest of the world, I think, in seeing European monetary inte-
Pedro Schwartz
Concluding Comments

On the final afternoon of the Tokyo meeting, Pedro Schwartz looked back over the discussion of international economic management and offered a few reflections of his own.

In view of this wealth of ideas flowing over us, I am going to give my personal impression as to the challenges to act that are confronting us as the Trilateral Commission.

For many economists, the very idea of demand management, of anti-cyclical public expenditure, of the management of prices (especially the exchange rate) by governments are either absurdities or impossibilities at the national level, let alone at the world level. So the first problem, in my view, is whether we should not abandon the whole idea of international economic management—and the summutry, the travelling, the getting together, and the ad hocracy that this implies.

More concretely, from an economist's point of view, it may prove to be impossible to move gradually from a flexible exchange rate system, dirty as it is, to a fixed exchange system. It may be economically impossible to have a halfway house between a flexible exchange rate system and a fixed exchange system. Totally fixed exchange rates between the three main currencies and the anchoring of these to some standard constitute the second problem. The problem is how to rebuild a Bretton Woods system that lasts, or how to live with flexible exchange rates if we cannot.

The alternative to international economic management may be the drafting of international economic rules, and of domestic rules for ministers of finance. The third problem, therefore, for consideration by the Trilateral Commission would be what fiscal and domestic rules should be obeyed by the developed nations to take the sting out of flexible exchange rates, or to establish and keep up a system of fixed exchange rates—especially how to avoid budget deficits such as the one which has been created in the United States.

Now, to turn to the real economy, we note the lower growth in the world (except in Japan, the United Kingdom and Spain), the higher unemployment (especially in Europe), the deeper underdevelopment in some parts of the South, and the slower growth of world trade and creeping protectionism from which we are suffering. So the fourth problem is how to liberate economies from excessive public expenditure, from social security and fixed entitlements, from tariffs and quotas, from industrial and agricultural policies, and from non-tariff limits and obstacles. It's the whole question of market opening, which is especially important here in Japan.

On the same lines—that management is futile, and that rules and institutions are essential, which is a distinction I have wanted to make from the beginning—the fifth problem is how to help open markets in the new GATT round; how to include agriculture and services in free trade rules; how to break non-tariff barriers; and how to make the GATT secretariat a bit more executive (to work, as the IMF works, by visiting countries and perhaps expressing an opinion on their policies).

Concretely, there is a problem not only of opening up and establishing multilateralism, but of what the new limited trade areas mean. What do the Canada-U.S. accord, or Europe in 1992, or perhaps a Canada-U.S.-Mexico-Latin America accord mean for the international economic order? Do these represent threats of breakdown or small steps in halfway houses towards a freer world? We might find that, as with exchange rates, it is impossible to move in steps from a highly bound world through limited trade areas to a free trade world. Limited trade areas may be a step back.

This is a problem which is especially important to us Europeans. One member has tried to list the pros and cons of the agreement in Europe to establish a free market by 1992. I may say from personal experience in Spain that 1992 has meant a revolution in Spanish economics and society, and it has also meant a revolution in Portugal. It is opening up our country to competition that didn't exist, not only in trade but also in the financial world, and soon enough in the labor market—that is, in the movement of people, not only of capital and goods.

Hence, for the smaller countries of Europe at least, 1992 and a unified European market may mean a much freer world, and perhaps a step toward accepting a multilateral free trade situation. Whether this is true when you take Europe as a whole—a Europe that still has an agricultural policy and rather high external tariff and non-tariff barriers—is a question to which the Trilateral Commission might like to turn.

In sum, the first challenge is to decide whether international economic management is necessary or even possible. The second challenge is how to
organize international economic cooperation so that
the natural inclination of every individual to better
his or her own condition, to quote Adam Smith, is
given a free rein, and results in an increase and in
the diffusion of social wealth around the world.
There is a difference in our midst between those
who fondly believe that civil servants and politicians
have to guide the world economy if it is not to go
astray, and those who think that the main challenge
before the Trilateral nations is the establishment of
rules, and the creation of institutions to stop politi-
cians and civil servants from interfering with indi-
vidual and business initiative.

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JAPAN’S ROLE

Japan has built its national economy from the ruins of World War II to become the second largest in the free world. Having risen this far, we should realize that our policies and actions have immediate and important international implications. We have yet to become fully aware of this significant change in our status in the international community, partly because the change has occurred so quickly, but mainly because we still do not enjoy the amenities or the quality of life that we should be enjoying. We are not feeling affluent enough and are not contributing to the world in a way commensurate with our economic power.

People abroad, while amazed by Japan’s success, do not know where to put Japan in their frame of reference. In human history all economic powers became militarily strong and politically dominant. Japan is not. Japan was a small country when it renounced war in its Constitution, and nobody really noticed. Now we are a big economic entity, yet we do not intend to alter our course; and the whole world is asking us what we plan to offer besides VTRs, cameras and cars.

I believe that it is high time that we demonstrated to the world the contributions we intend to make. Today’s Japanese prosperity owes much to the peace we have enjoyed for the last 40 years. We must now transform ourselves from a beneficiary to a contributor and fulfill our responsibility to the world through the maintenance of world peace and the revitalization of the world economy.

Today, I would like to talk about contributions Japan plans to make to the world in the field of international finance and economy. I would like to touch upon topics you would expect from a Finance Minister.

EXCHANGE RATE STABILIZATION

One of the most destabilizing factors of the world economy has been the sharp fluctuations in the value of the major currencies. We, the industrialized democracies, have just gone through an unprecedented period of cooperation in correcting the over appreciation of the U.S. dollar. It started when we agreed back in September 1985 at the Plaza Hotel in New York that the prevailing exchange rates did not reflect the economic fundamentals, and that we should cooperate closely to correct the situation.
The depreciation of the U.S. dollar, thus started, went too far and too fast. When I took over the post of Finance Minister in July 1986, the yen stood at 155 yen for the dollar, while it was 242 yen for the dollar just ten months before that at the time of the Plaza Agreement. The drastic change had already been horrendous, but the yen’s value continued to crawl up. For Japanese exporters, it seemed as if after leaping a high hurdle, even higher ones were placed one after another in front of them. The steep depreciation of the U.S. dollar unduly depressed economic activities in Europe and Japan, while generating concern about inflation and rising interest rates in the United States.

It was in such circumstances that I met U.S. Treasury Secretary Baker in the fall of 1986 and agreed with him that the exchange rate realignment since the Plaza Agreement was now broadly consistent with the underlying fundamentals; and we reaffirmed our willingness to cooperate on exchange market issues, since further exchange instability could jeopardize stable economic growth. This agreement was later broadened into a multilateral agreement by the G-7 Finance Ministers and Central Bank Governors at the Louvre in February 1987, and strengthened by heads-of-state at the Venice Economic Summit Meeting in June 1987. When shock waves went through financial markets worldwide after Black Monday, we reaffirmed our commitment to policy coordination and cooperation in the currency markets last December.

The concept of spending more to stimulate domestic demand has gained acceptance in Japan....

Japan is determined to stabilize exchange rates more permanently, which is indispensable for sustained growth, not only for Japan but also for the world, since our national economies have become so integrated and so dependent on one another.

POLICY COORDINATION
The policy coordination reaffirmed in these fora aims at currency stabilization and the reduction of external imbalances in the context of sustainable noninflationary growth and greater exchange market stability. It naturally calls for reduction of the twin deficits by the United States and expansion of domestic demand in Germany and in Japan. At first, the market was rather skeptical about our policy coordination on the grounds that each nation was constrained by its own economic or political situation. For instance, the accord reached between the White House and Congress late last year to reduce the U.S. budget deficit was said to be too late and too little. But we now accept it as a declaration of their commitment to reduce the twin deficits, admitting that the United States has its own special problems. I appreciate and support U.S. efforts, and hope this commitment is not undermined in this election year.

EXPANSION OF DOMESTIC DEMAND
On our part, we in Japan committed ourselves to spur our domestic demand on both the fiscal and monetary fronts. We lived up to this pledge by implementing last July a fiscal stimulus package of over $40 billion; and we are keeping our interest rates low—the Bank of Japan’s rediscount rate is currently 2.5 percent, the lowest in our history. As a result, the Japanese economy has rebounded steadily since the middle of last year. The real growth rate of our GNP for 1987 was 4.2 percent, with 5.0 percent coming from domestic demand and minus 0.7 percent from external accounts.

The concept of spending more to stimulate domestic demand has gained consensus in Japan; and we are redirecting our energies from exports to improving the quality of life. To help this process, I created last year a new social infrastructure fund that would provide interest-free loans for urban renewal and local development projects, to be financed by revenues from the privatization of the Nippon Telephone and Telegraph (NTT). This will greatly enhance public spending projects across the nation for years to come by supplying a sizable increase in government funding.

The increase in our domestic demand has brought about a significant turn around in our external balances. Japan’s imports increased by 18.3 percent in dollar terms last year—and over 40 percent of total imports were manufactured goods. With our exports hardly increasing in volume, our monthly data on trade and current account surpluses have been recording a steady decline from the year-earlier levels. As a result, external demand has been mak-
ing a negative contribution to our GNP growth for the last two years and will continue to do so this year, too.

LIBERALIZATION OF FINANCIAL MARKETS
Another area where Japan can make a contribution is an expanded and diversified financial market. We have made efforts to deregulate and to internationalize our markets to meet the ever-growing needs both at home and abroad.

...Japan has to assume a leadership role in revitalizing the financial flow to developing countries....

Among the major achievements in this area have been the development of short-term financial markets and greater use of the yen by non-residents. Following the introduction of the negotiable certificate of deposit in 1979, the bankers acceptance market became operative in 1985, the Japanese Treasury Bills market became active in 1986, and commercial paper has been issued since last year. At the end of 1987, the total outstanding debt on short-term financial markets amounted to 98 trillion yen, or as much as 28 percent of our GNP.

The Tokyo offshore money market, structured after the International Banking Facility (IBF) in New York, opened in December 1986. The total assets held in the market are now valued at over $260 billion, nearly rivaling the IBF, and roughly 40 percent of the assets are denominated in yen. We hope this market will develop in the future as the center of euro-yen transactions.

Future transactions in government bonds were begun for the first time in Japan in 1985 at the Tokyo Stock Exchange. To provide a variety of hedging opportunities to investors, we are opening up a much broader market for futures and options transactions. We have proposed bills to the current session of the Diet which would facilitate a drastic expansion of the futures and options instruments on stocks and bonds, introduce financial futures and options markets, and further deregulate investment in overseas futures and options markets.

We have also taken measures to welcome foreign financial institutions to our markets. All qualified foreign banks, securities firms, insurance companies, and investment advisory firms are welcome to branch out into our market. Even American commercial banks, which are restricted at home by the Glass-Steagall Act, may conduct securities business in Japan through their offshore subsidiaries. In 1986, the Tokyo Stock Exchange opened its membership to foreign securities firms for the first time. Of the 32 members newly admitted to the Exchange over the last two years, 22 were foreign firms.

I believe that there is strong momentum in our markets for further diversification and globalization and I can assure you that I will make every effort to promote such developments.

DEBT AND DEVELOPMENT
The Third World's accumulated debt is not only a problem for them, but for us all. We welcome cooperative efforts made by the debtors, international organizations, creditor banks, and industrial countries, since the Baker Plan of October 1985. The pillar of that strategy is self-help by the debtors to restructure their own economies. Yet in the past, we have seen examples where overly severe discipline made little contribution to growth. We, the industrial countries, must be ready to assure developing countries that they will be able to increase their earnings by exporting their products to us.

On this issue of debt and development, we in Japan were perhaps slow in recognizing our responsibility, as we transformed ourselves almost overnight from one of the recipients of external capital to one of the largest investors. Now, we are rapidly increasing our contribution in this area as well. The recent $30 billion recycling plan of untied money includes our own multi-billion dollar loan to the IMF, the largest contribution to the World Bank's new special fund, and the mobilization of more private capital. As for Official Development Assistance, our medium-term target is to disburse at least $40 billion during the period of 1986 to 1992. Unfortunately, we have witnessed a worldwide decline in the flow of resources from the private sector. Against this background, the Japanese banks have been steadily expanding their credits to developing countries.

I believe that Japan has to assume a leadership role in revitalizing the financial flow to developing
countries because some other governments may be slow to offer support on account of their relationship with their legislative bodies.

THE RESILIENCE OF THE JAPANESE SOCIETY
I have given you a quick rundown of Japan's contributions to the international economy. I believe we are making, or at least starting to make, a significant contribution, although a tougher road lies ahead and it may take time.

To restructure our export-oriented economy will be a long and painful process. The past two years' appreciation of the yen has willy-nilly pushed the Japanese economy in that direction, especially in the manufacturing sector that had become heavily export-oriented when the U.S. dollar was so overvalued. The Japanese economy or, let me say, Japanese society as a whole has so far demonstrated its resilience in becoming less export-conscious and more domestic-oriented.

Looking back, we arose from the devastation of World War II to become a highly competitive export machine, thanks to thrift and hard work, good labor-management relations, a high saving rate, and entrepreneurship—which are qualities that still stay with us and which I can be proud of. I hasten to add that we are making best use of these virtues now to transform ourselves into the new, more balanced and affluent society which our people deserve.

• Kiichi Miyazawa is Deputy Japanese Prime Minister and Minister of Finance
What has been new and unique about the recent experience with interdependence is not the growth of ties between economies (this had happened in earlier eras, as well), but the coincidence of international interdependence between national economies with new relationships between state and society in our respective countries, i.e., the democratic and pluralistic welfare state. While governments have benefitted enormously from international interdependence—in their ability to actively pursue objectives such as growth, public welfare and full employment—they have also been the natural addressee for all those in society confronted with the pressures and costs of adjustment.

Governments are thus under enormous pressure to spare their citizens the painful consequences of interdependence. Yet at the same time, they are increasingly under pressure from their peers. The golden days of interdependence management—when American leadership developed and maintained structures which allowed interdependence to unfold in a clear framework—are long past.

This is supposed to be the time of cooperation: a time when the role of leadership, once donned by the United States alone, would be taken over jointly by North America, Western Europe and Japan, acting in concert to define and support the rules and steering mechanisms required to keep the world economy on an even keel, while allowing it to reap the benefits of interdependence. This has also been the central philosophy of the Trilateral Commission. It assumes that our governments can act with the required vigor and clarity of purpose. This assumption, it seems to me, has been only partly justified.

The record of international economic cooperation in the 1970s and 1980s has been rather mixed.

**THE LIMITATIONS OF RELYING ON EXCHANGE RATE CHANGES**

We have had some recent successes in international macroeconomic policy coordination, notably in exchange rate management. The landing of the dollar has been cushioned, though at a considerable price. Major central banks outside the United States last year spent at least $100 billion in trying to prevent the decline of the dollar from becoming a free fall. Although exchange rate realignments are beginning to bite into underlying trade imbalances, I am not yet persuaded that they alone will suffice to prevent further turmoil in financial markets and stem the
pressures of protectionism. Central Bank intervention cannot alone handle our large and uncomfortable agenda of unresolved international economic issues: How can we eliminate the twin U.S. deficits within a reasonable timespan and without major disruptions of world economic activity? How can we channel the world's huge excess savings to where it is most needed: the Third World? I don't think we have the arrangements in place to resolve those issues.

Leaving aside economic considerations for a moment, I am also struck by the political implications of our reliance on the exchange rate mechanism. It seems to me remarkable that we entrust the tasks of managing adjustment largely to central banks and exchange markets—-institutions which are as far removed from domestic political pressure as possible. In other words, I am worried about an abdication of political responsibility by governments. Not for the first time, by the way—for world inflation in the 1970s was defeated not by U.S. government actions, but by financial pressures and our friend Paul Volcker at the helm of the Fed. This can hardly be a viable political path in the long run. Our governments need to live up to their task of managing interdependence.

GERMAN REFLATION
Basically, everybody has been trying to persuade the others to do the required adjustments—the United States expects Japan and West Germany to provide new export markets for battered American industries, while Japan and West Germany expect the United States to reduce its budget deficit. Yet governments have found that for domestic reasons their margin of maneuver is extremely limited.

Take the example of my country. We have been under considerable pressure for some time to reflate our economy. Believe me, I would love nothing more than a higher rate of growth—our level of unemployment is consistently much too high—but the facts are:

- Germany has been and will be reflating. The federal deficit will grow substantially this year. In fact, on present policies, the public sector deficit could go up from DM 43 billion in 1986 to about DM 70 billion this year, an increase from about 2 percent of GNP to 3.5 percent, which is more than the U.S. deficit and is a sharper fiscal expansion than in any other of the five major industrialized countries, or than at the time of the German “locomotive” role in 1978-1980.
- The scope for additional stimuli has become very small, as money supply has been growing considerably faster than foreseen in Bundesbank targets, and discount rates are at their lowest levels since the first German central bank was set up in 1876.
- Even if there were additional possibilities to inject demand in the domestic economy, it seems quite doubtful to me that this would actually lead to significantly higher growth rates. Our experience with pump-priming seems to indicate that the German economy's response to stimulation has become rather sluggish.

This is not to say that nothing is happening with Germany's trade surpluses. Last year, German exports rose in volume terms by only 0.3 percent, while imports rose by 4 percent. Some of you will not be satisfied with those explanations--and I agree with you. Indeed, we cannot just leave it at that.

GOVERNMENTS OUGHT TO BE MORE COURAGEOUS
Reluctance to make international commitments is often justified in terms of a desire to safeguard national sovereignty—but national sovereignty has become a political fiction in the world of interde-

...national sovereignty has become a political fiction...
The new sovereigns are international financial markets and the farmers in Upper Bavaria—or Tokyo, for that matter!

—-dependence, where governments have lost their autonomy both vis-à-vis the domestic political process and vis-à-vis the forces and pressures of international interdependence. The new sovereigns are international financial markets and the farmers in Upper Bavaria—or Tokyo, for that matter!
We cannot build the necessary international structures for interdependence without some devolution of national sovereignty; and we cannot develop the necessary domestic conditions for benefitting from interdependence without persuading our people to accept change, and to seize it as an opportunity.

Our governments ought to be more courageous—in two directions. First, on the international level, we need a greater willingness to develop rules and norms—and to stick to them. Governments have been too reluctant to give up the figments of their sovereignty, too inclined to adhocery and "pragmatic" solutions. International trade provides perhaps the most vivid example, where bilateral deals and unilateral measures have proliferated dramatically. We need to go back towards general rules and their reinforcement, if we want to prevent international interdependence becoming corroded and eventually destroyed by domestic political pressures. Second, on the national level, we need a greater willingness to confront special interests and to challenge them to join in the development of alternative solutions. I simply refuse to believe that the European agricultural policy, rules and regulations in our labor markets, or the restricted operating hours of German shops—to give just a few examples—are optimal solutions even in terms of the narrow interests which those policies supposedly protect.

Without such a renaissance of political responsibility and leadership of our governments, we are likely to run into very serious difficulties. To be more specific, I am worried especially about the risks of a world recession.

FURTHER ECONOMIC INTEGRATION IN EUROPE
I see hopeful signs of change along the lines I just suggested. These signs of change I detect not least in Europe. Indeed, we are at the threshold of a major opportunity to revitalize European economies, and thus also to contribute to our wider international responsibilities, with the completion of the Common European Market by 1992.

The efforts to complete what the Treaty of Rome had set out to achieve are now well under way. To achieve this objective, the European Commission has identified some 300 major pieces of legislation which will have to be enacted by 1992. It is true we are behind schedule—with 70, rather than the expected 160, such agreements already secured. But there has been movement, and it has been in the right direction of providing for more competition, of breaking down cosy but inefficient narrow national preferences, of mobilizing the enormous economic potential inherent in a unified economic space for some 350 million people in Western Europe.

I am encouraged by the reaction in industry and banking to the 1992 target for Europe. The weight of those many decisions in favor of Europe taken on company boards all over the Community will provide helpful pressure to keep our governments on track. But the critical decisions which will decide the program's success or failure will have to be taken by European governments. They have the chance to do what I suggested before: to set general rules and norms which will open up new space and new opportunities for Europe. If we miss this golden opportunity out of respect for tired notions of national sovereignty, governments will find this supposed sovereignty fades quickly—exploited by vested interests asking for more protection, more featherbedding.

I am modestly hopeful that Europe will live up to this opportunity. The result will not be perfect by 1992, perhaps not even by 2002. But the important thing is to build up momentum. The momentum will be irreversible if our governments continue to push ahead.

This greater European market must be open to competition from outside. That stems from our responsibility vis-à-vis our big trading partners. It is even more important for the Third World. And it is in Europe's self-interest.

Sooner or later, this unified market will also require new initiatives in Europe's monetary arrangements. I am in favor of a common European currency. It will be a necessary corollary of a unified European market to make much broader use of the ECU. Eventually, we will also need a European Central Bank. Hans Dietrich Genscher has launched a proposal along these lines, and I agree with him...
that we should begin to take this idea seriously, that we should discuss possibilities to develop a strong and independent common monetary institution. To be workable, however, such a European Central Bank would have to be independent from governmental intervention along the lines of the American Fed or the German Bundesbank. Again, we are at the point where a real transfer of national sovereignty would be necessary and, in my view, also desirable. And I can assure you that even Karl Otto Pöhl would not object to such a development.

URUGUAY ROUND
Another area where our governments have an opportunity to develop general rules and norms to facilitate management of the world economy is international trade—more specifically, the Uruguay Round. We have the chance to reaffirm and extend the validity of the general principles on which our extremely successful international trading regime has been built: non-discrimination, transparency, and multilateralism. We certainly need to strengthen those principles. Furthermore, we have excluded large areas of international trade—such as agricultural trade or services—from the application of free trade principles; and we have failed to adhere to them even in those areas of international trade where those principles allegedly apply.

JAPAN MOVING IN THE RIGHT DIRECTION
In sum, I am arguing for more responsible behavior by our governments in developing general rules and principles for international cooperation and in confronting their electorates with the need to change their ways.

Finally, I would like to add a word or two about Japan. I am impressed by changes which seem to be under way in this country. If I understand correctly, the changes underway in Japan are going in the direction which I outlined before, of taking on greater responsibilities in developing international norms and principles, and of engaging our societies in a dialogue about the need for change—in Japan’s case, the need for internationalization. To be sure, there are areas where I would wish for more, or perhaps even for different changes. But I want to express my admiration and respect for Japan’s efforts here to come face to face with her enormous new responsibilities. I do not pretend to know where this road will take Japan, or whether Japan will come to grips with her new, demanding role. It does seem to me, however, that recent changes in Japan show what I have been trying to supply tonight: a longer-term perspective involving fundamental political re-orientation of policies towards greater international responsibility.

Otto Graf Lambsdorff is a Member of the German Bundestag, and former Federal Minister of Economics
LOOKING BACK
I was in the Treasury in the early 1970s. I remember reasonably well the formation of the Triangular Commission, because I was a little suspicious. It seemed to me then that the world was faced with economic imbalances of historically large proportions. The implicit assumptions that underlaid the existing or pre-existing monetary and trading systems, particularly the degree they rested on the unique strength of the United States and the dollar, were no longer valid. And I was well schooled in the John Connally school of diplomacy. According to that school of thought—and there's something to it—a certain amount of shock is an essential part of achieving necessary change. So to put it quite bluntly, I was not particularly interested in seeing a group of notables—however distinguished and well intentioned—pouring oil on troubled international waters before the source of international trouble had been taken care of in some fundamental ways.

The fact of the matter is that governments, in the end, more or less did abdicate from the process of negotiating a satisfactory new set of exchange rates. They certainly abdicated from redesigning the monetary system, and from developing a coherent official response to the oil crisis. And from that date forward there's been a more or less defensive stance on trade issues.

That was all done in the end in a reasonably friendly fashion. We decided that if we really couldn't agree on a new set of exchange rates, well then, we would all let them float. If we really couldn't agree on official recycling mechanisms for the oil money, well, we could leave it up to the banks (some of them might commit suicide in the process, but that's another story). The feeling was that if we couldn't discipline our energy use or our fiscal budgets or our money creation, well then, we'd have a little inflation; and if some didn't join in that process, floating exchange rates would take care of it.

Now, I put that in somewhat bleak terms as a kind of massive breakdown in international economic leadership and cooperation, but I don't think it was really seen that way at the time—certainly not to that extent. There were and there are strong reasons to let the markets take the brunt of needed adjustments in many cases. A joint decision not to meddle in the market can sometimes be a high act of cooperation. Conversely, elaborate governmental
interventions and controls, in the name of formal cooperation, can turn out to be the antithesis of effective cooperation by undermining growth and contributing to unnecessary political friction. Indeed, it could be argued—given the provocations of the world economy, the breakdown of Bretton Woods (more or less inevitable), the oil crisis, the poor economic performance relative to the earlier postwar period, and huge trade imbalances—that governments have done a pretty good job in con-

...the financial side is a point of vulnerability.

ducting an orderly retreat. We’ve avoided a massive breakdown of the trading system. At times of real crisis, governments were able to pull themselves together to react pretty effectively.

So it’s mixed picture. The ship hasn’t capsized, and the mutual understanding and the cooperative approaches fostered by the Trilateral Commission have indeed helped. But I don’t think the present response is really good enough. We face challenges on a scale even larger than those of the early 1970s, and the question before the house is what we going to do about it?

ECONOMIC PROGRESS, FINANCIAL VULNERABILITY

In appraising those challenges and recognizing their severity, I think there are some things that we should put on the favorable side of the ledger. The immediate economic outlook in a non-financial sense (that peculiar reservation I will explain in a moment) is better than it’s been for some time. Not only are economies growing—and growing in almost all our countries over the past six years—but the growth is beginning to move in the direction of basic adjustments that have to be made in the American trade position, and in the complementary trade positions of other countries.

The United States has managed to increase real exports on an order of roughly 15 percent over the last couple of years. That is quite remarkable given that the markets to which it exported were growing very slowly (or not at all, as was the case with Latin America). That’s all been achieved with inflation so far not out of control, including in the United States which has borne the brunt of the big depreciation of its currency and the inflationary risks that poses.

But in appraising future economic prospects, a reservation is required. We have seen increasing amounts of volatility in financial markets in recent years. That has continued even as the inflation rates have declined, and as we have seen a convergence of economic performance in other respects. For a favorable economic picture to work its way out, it is obvious that we face a long period during which it will be necessary to continue to finance the American current account deficit. The risk in that situation has been described in these meetings before; I think the risk is that if there is not spontaneous financing of a large and continuing, even if decreasing, U.S. current account deficit, further downward pressure will come upon the dollar. That will, quite naturally, raise more intense inflationary fears.

A further decline in the dollar at this stage will contribute very little to the adjustment process, because our export industries are already working near capacity. Indeed, in employment terms, the whole economy can’t be very far from capacity. In such circumstances, we will have much more transmission of further dollar depreciation into inflationary pressures than into real economic output and an improvement in the trade balance. Indeed, it is the kind of situation that could precipitate an inflationary recession.

So while we have things moving in the right direction in the real economy, one is left with a nagging feeling that the financial side is a point of vulnerability. Much depends on the degree of confidence that those controlling international flows of funds have in the proposition that the international imbalances will indeed continue to narrow and eventually disappear. It does not strike me as a situation that we can safely leave to the markets. Sooner or later, the market will take care of the imbalances. The relevant question is whether the market will take care of the imbalances in a context of growth and stability. I think the possibility of that happening, faced with governmental inaction, is close to nil. We are going to need action by governments; and we are going to need actions of a kind that so far haven’t been forthcoming.

WE NEED TO ACT

I don’t think the basic issue is one of understanding. In the early 1970s there was a genuine problem of
understanding—different economic analysis, different judgments as to magnitudes—between Europe, the United States and Japan. The issue confronting us now is how to get action, when the general directions and orders of magnitude, in an intellectual sense, seem clear enough; how to get action, when that action has to be collective. Every place we go, every newspaper we read, every meeting we attend, discusses ad nauseum interdependence and integration and how it’s increasing. But given all the talk about it, I don’t see many countries acting on that premise.

Let me give you some examples. We are running an election campaign in the United States, yet I have heard very little discussion from the candidates about the imbalances in our internal or external payments and what that means for their administration and their policies. There is almost a conscious effort to avoid the issue. To take another example, we have been at least tempted to use depreciation of the currency as a weapon of foreign economic policy, almost oblivious at times to the risks to the United States itself. We have been threatening bilateral trade agreements that are the antithesis of multilateralism. If the United States has stood for anything in the trading area in the postwar period, it has been for multilateralism. But that spirit is greatly weakened today.

The United States is not alone. Europe is preoccupied with its remaining internal barriers—and that’s growth will continue, given current policies. While we talk about a bigger Japanese contribution to aid or to defense or to some combination, the target figures that I hear from people outside of Japan do not seem to correspond with what the Japanese Finance Minister is saying to us. And I think he’s the realist on that score.

AMERICAN LEADERSHIP
It’s certainly a Trilateral problem—it’s more than a Trilateral problem. But at the same time, I don’t think there’s any basis in history or in common sense to think that these problems can be resolved purely by discussion among a group of equals, however well informed they are, and however cooperative they might feel, and however they might be impelled in concept to recognize the need to share burdens and privileges. In the end, somebody is going to have to take the lead; somebody is going to have to be first among equals; somebody is going to have to convene and chair the meetings. And without any elaborate analysis, I don’t see who that can be other than the United States for the relevant period ahead.

We can’t change the fact that the United States as an economic entity, in relative terms, is getting smaller. Obviously, the relatively more rapid growth of others has positive implications in many respects. Someday, I won’t be able to make the statement I just made—that only the United States can lead. But today we still need to come back and start with the United States as the main decision-making unit.

I think that with the current exchange rate we’re competitive. I do not think our budgetary problem is insoluble—3.5 percent of the GNP isn’t terribly large by international standards. (What’s way down in international comparisons is the savings rate, which is small and declining.) All it takes is a little expenditure restraint; and some manageable increases in taxes.

Let me be specific on the tax side. If we close half the gap by taxes, which seems to me to be reasonable, you could do that by about 15 cents on the gas tax for three years in a row, bringing it up by 45 or 50 cents, together with something on cigarettes and something on cigars and something on liquor and something on telephone calls. I mention those taxes because we have them already; we would not be breaking any new ground. Some of those taxes in real terms are lower than they were 20 years ago.

...today we still need to come back and start with the United States as the main decision-making unit.

fine, it’s the logic of the Common Market—but I worry whether that preoccupation is going to be consistent with loosening external barriers. The one place where Europe has really had a common policy—the Common Agricultural Policy—that policy has given the rest of the world fits. More immediately, where is European growth? I’m an old central banker—I am very sympathetic to German concerns—but at some point it’s hard to sit back and just say there’s nothing we can do. As far as Japan is concerned, one wonders whether the thrust of current
Some of them would have good effects either on health or energy conservation or maybe both. It's hard to argue they would gravely damage incentives. Does that seem impossible to me? My answer is very clearly "no."

Psychologically, I think there is still an instinctive sense in the United States that our own self-interest lies in an open economic order and in mutual security. One way or another, the American public is willing to pay some costs in those respects. Leadership is going to have to be much more consultative and consensual, but still somebody needs to chair the meeting; and the chairman—I've had some experience in this—always has to bring a little extra to the table. The United States is going to have to continue to bear a disproportionate share of the direct military costs, although others can do more around the edges. The United States will have to be prepared to maintain open markets—relatively, we still do that more than other countries.

I also certainly think that we're going to have to maintain an active international development program. We're going to have to be willing to vote for (and even take the lead in) increasing the size of World Bank or funding the IMF. Most important, we're going to have to conduct our internal affairs in a way that supports those international responsibilities, but in a way that seems to me perfectly consistent with our internal needs.

Having said all that, it is clear that Japan and Europe have complementary responsibilities. I see no reason see why Japan and Europe cannot now take on a disproportionate part of new development efforts. In relative terms, it is reasonable to look to Europe, and maybe particularly Japan, to take the lead in opening markets. None of that seems to me at all impossible, but I don't see it really being done very actively.

THE RISK OF REGIONALISM
I'd like to say a word about the risk of regionalism. I don't share the sense of complacency that I seem to hear about that prospect as a kind of reasonable and feasible substitute for broader agreements and broader cooperation. With the exception of something like the Common Market—an area that is really driving toward political unity—regional blocs are a derogation of multilateralism and contain some danger. I am willing to rise above principle in the case of the U.S.-Canada free trade agreement, because with the United States threatening to turn to protectionism, that agreement is a strong public symbol in the other direction.

Suppose we in the United States thought we could solve some of our trade problems by regionalism. What contribution would these regional agreements make to dealing with those huge trade imbalances? If these imbalances are going to be dealt with, they're going to be dealt with through a complicated, multilateral process. That is not a process which is going to be facilitated by breaking the world up into regional blocs. If we really believe

With the exception of something like the Common Market...regional blocs are a derogation of multilateralism and contain some danger.

what we say about regional trading areas being open, we ought to write a new GATT provision that says that if you're going to have a regional trading area, you must not increase an external barrier to the rest of the world as a part of that bloc. Or if you do it, you can only do it by a tariff which is out in the open and for which there can be compensation.

LOOKING AHEAD
We face a difficult transition from U.S. dominance to inevitably, I think, in a decade or two, a much more diffuse kind of economic system. That more diffuse world near the year 2000 is going to require a more structured international system than we have now. It's going to require a stronger GATT. It's going to require a structured monetary system. And we ought to begin worrying about how we integrate the socialist bloc into a market economy and into a thriving, open world economy.

All of that is enough to keep the Trilateral Commission active and stimulated beyond the end of the century, and at that point I suspect most of us will be retired. We can pass the baton of leadership. And when we pass it, I think, at that point it will have to be to a much more diverse group—North and South, East and West. In doing so, I think it's
going to be necessary to pass along a much more effective rulebook on how to operate a multilateral system. The kind of flexible ad-hocery that has characterized Trilateral relations in the last 15 years may provide an evolution to a different system. I don’t think that it is going to serve the 21st century as well.

Paul Volcker is Chairman of James D. Wolfensohn Inc., Frederick H. Schultz Professor of Public and International Affairs at Princeton University, and former Chairman of the Board of Governors of the U.S. Federal Reserve System.
Ivan Head prepared a background paper for the North-South session entitled “The Dangers of Disequilibria.” Before turning to four key disequilibria, he looked at the term “North-South”—“imprecise, even inaccurate” yet “resonant of human expectations” and rich in its “range of connotations.”

The multiplicity of the issues associated with “North-South” and their resistance to solution has attracted legions of analysts and developmental experts. As in the arcane and isolated world inhabited by arms-controllers, so in the surcherched atmosphere of development, sheer quantity of activity can leave the false impression of accomplishment.

In a number of sectors, accomplishment has resulted. In the 25 year period 1960-1984, the average annual per capita growth of GDP for all developing countries, excluding China and the oil-exporting countries was 2.8 percent. If those countries were included, the average was 3.4 percent. In that same period, remarkable gains were recorded in literacy, in infant mortality, and in life expectancy. Cereal grain production increased; small-pox was eradicated. Yet in most developing countries individual standards of living have dropped, political instability has increased, and the likelihood of sustained economic growth has now diminished. From the perspective of hundreds of millions of inhabitants of developing countries, life remains a wretched, uncertain prospect. The likelihood of a dignified, fulfilling livelihood is as distant as it was a generation earlier.

From the perspective of the governments of the industrialized countries, one gains the impression that North-South relations have resumed their secondary role, debated once again in an atmosphere marked by shortness of temper and frequency of accusations. Little noticed is the extraordinary imbalance that has developed between North and South, the immensity of the resulting disequilibria, and the dangers they present. Disequilibria make unsustainable the continuance of the status quo; they lead to inevitable, often unpredictable, sometimes uncontrolable change.

The most obvious of the disequilibria in the relationships between South and North are population, economic wealth, scientific activity, and military power. The most obvious consequences of those disequilibria are environmental degradation, economic uncertainty, social unrest, and political instability. When left unattended, momentum may become irreversible.

i) Population
On July 11, 1987 the world’s population passed the five billion mark. In the 274 days since then, a net growth of another 60 million has taken place, greater than the population of France or the Philippines. The size of the planet did not increase, nor will it. In fact, in some respects, the planet has become smaller. The amount of arable land is actually decreasing. In those same 274 days, arable land diminished by 16,907 square kilometers, more than half the area of Belgium.

Since 1950, another important distinction has become apparent. The longstanding, roughly parallel, growth rates between countries industrialized and developing ceased. Between 1950 and 1970, the North grew at 1.1 percent annually, the South at 2.2 percent. Accepted projections distribute the population for the year 2000—6.2 billion—as 4.9 billion for the developing countries, 1.3 billion for the industrialized countries. This is disequilibrium.

A contributing element to the already unstable nature of this population imbalance is its demographic composition. By the year 2000, 51.2 percent of the world’s population will be urban. Forty-five of the 60 largest cities will be in the South, 18 of them larger than 10 million. The residents of Southern cities overwhelmingly will be young, while in the North, populations are aging. In the developing countries, 35 percent of the total population will be under 14.

ii) Economic wealth
The broad inter-state disparities in wealth and income have long been recognized. A new factor, however, has recently re-emerged: financial transfers from South to North—re-emerged, because this was a common occurrence in earlier colonial periods.

Since 1970, developing countries’ external liabilities of all kinds increased immensely. The current total is in excess of US S1.2 trillion, the greater part of
it denominated in U.S. dollars. Debt service payments have risen more than ten-fold in the same period. Rising interest rates have resulted in interest payments accounting for more than 50 percent of debt servicing.

The unprecedented exposure of the private banks has reduced considerably fresh credits. This, combined with the successful, though painful, servicing efforts of the majority of debtor countries has led to a sharp reversal of the earlier transfers, with negative net transfers recorded successively since 1983. In 1985, the net negative flow was US$31 billion. Measured in current account terms alone, the figure for developing countries is in excess of minus $45 billion. Since 1985, this negative flow has continued and is particularly evident in the World Bank and IMF net transfers. World Bank net transfers to developing countries have increased from -$2.6 billion in 1985 to +$350 million in 1987. IMF net transfers to developing countries have gone from -$2.7 billion in 1985 to -$8.6 billion in 1987.

Continuing net financial transfers of this magnitude to the industrialized countries and the international financial institutions are not sustainable. This is disequilibrium.

A contributing factor to the growing magnitude of this imbalance is found in the terms of trade between developing and industrialized countries. Compared with 1980 (100), the dollar unit values of exports of developing countries in 1986 was 74, while dollar unit values of imports was 101. In 1986, relative to exports, external debt for the Western Hemisphere developing countries was 354.7 percent (up from 183.5 percent in 1980), Africa 219.6 percent (up from 90.2 percent), and Asia 101.6 percent (up from 71.9 percent).

iii) Scientific activity
In the late '60s, the enquiries launched by the Pearson Commission revealed that expenditures committed to research and development in Latin America, Asia and Africa lagged far behind the outlays in the industrialized countries. In an age where technological advances are occurring with breathtaking speed, the gap in capacity between North and South is rapidly widening.

This lack of capacity is particularly distressing in light of the incontestable fact that technology, through history, has been the most effective of all change agents. The knowledge now available with respect to agricultural production, primary health care, pedagogy, and economic analysis is not simply transferable, but needs to be absorbed by developing countries and utilized in a geographically and culturally sensitive fashion. Indigenous developing country foundations must be set in place to permit the evolution of the newer biological and physical science technologies. In their absence, the employment and benefit opportunities which these promise will not be obtained. There is an immense distance to travel.

UNCTAD figures show that the distribution of scientists and engineers worldwide is overwhelmingly concentrated in the North. The rate per 10,000 inhabitants is 95 in the developing countries compared with 285.2 in the industrialized market economy countries and 308.2 in the Eastern European countries. That average figure of 95, not surprisingly, is not evenly distributed. The range is from 137.6 in Asia down to 9.6 in Africa. The figure for technicians is even more dramatic, revealing a difference between North and South of an order of magnitude of 10.

The apparent inability of the developing countries to enhance the quality of their human resources, and to dedicate for this purpose a meaningful fraction of financial expenditures, condemns those countries for the foreseeable future to pursue outmoded, low-value economic activity of a kind that is increasingly irrelevant to world market demand. In human terms, it means that the grip of absolute poverty will not be eased and that the scourges of malnutrition and ill-health will persist. The effects of these circumstances are not containable within the developing countries, even were that morally defensible, which demonstrably it is not.

The impact of this disequilibrium takes many forms: in the Uruguay Round of multilateral trade negotiations as the developing countries resist the inclusion of services and proprietary knowledge; in the world's stock markets as they reflect the lowering absorptive capacity of developing countries for imports of high-price, high-tech manufactures; in the health care systems of Europe and North America where tens of billions of dollars must be dedicated each year to life-support systems for incurably ill persons infected with a foreign-origin virus.

iv) Military power
In terms of development of nuclear weapons, of
ability to deliver destructive force over great distances with considerable accuracy, of levels of training, and of military-related expenditures, the industrialized countries are enormously more richly endowed than the developing countries. In terms of usable weapons and of sustainable public support for military activity on a North-South battlefield, the imbalance is less clear. Against such incidents as the Malvinas and Grenada in recent years, and Malaya earlier, must be measured Korea, Algeria, Vietnam and Afghanistan.

Arms reduction has not yet become an issue of priority in many developing countries. The obvious disequilibrium in military force is just one of several factors encouraging many of these countries to dedicate scarce resources to military activities. The conscious extension of East-West rivalries into the developing countries, and the attractive image of thriving defense industries in the North are to be added to other, more traditional, factors such as regional threat perception. As a result, the military capacities of a number of Southern countries have become considerable, and include arsenals of increasingly sophisticated weapons and delivery systems. The combination of eager buyers in the South and willing sellers in the North has created a North-to-South weapons market of a volume of tens of billions of dollars annually.

This military disequilibrium is not one that should be balanced by major increases in expenditures and activity in the developing countries. Yet the tendency is in that direction. As East-West tensions relax, for whatever reason, in the NATO region, the likelihood that the developing countries will appear as a power vacuum is distressingly high.

The processes reactive to these or other disequilibria are not always predictable, sometimes not even discernible during real-time human observation. The political unit of time measurement in the industrialized democracies is four or, at the most, five years. Events that mature on a longer cycle are seldom visible, and are certainly not influential, in the timeframe occupied by decision-makers. Absent the political equivalent of time-lapse photography, governments of the North are unlikely to commit resources now to influence or control events in the distant future. If development is investment, as we encourage the developing countries to believe, we in the North offer all-too-little evidence of our own commitment. All the while, inexorably, the momentum of events continues apace, threatening in some instances to be irreversible.

Measured against the relentless momentum of current phenomena, indifference is not benign. Humility is needed, as is sustained dedication, if there is to be any reduction in magnitude of the disequilibria now evident. The crafting of a mutually beneficial dynamic relationship cannot wait for the emergence of a brilliant universal accord; it must emerge, as Saburo Okita has put it, from a series of "creative patchworks." In their absence, the present and growing imbalances threaten an uncontrollable Newtonian reaction of the kind prophesied by François Mitterrand earlier in the decade: "I am convinced that the balance between the two parts of the world, the industrialized nations and the others, will be one of the causes of the most serious tragedies at the end of the century, to be explicit, of world war."

Edmund Wellenstein

Edmund Wellenstein organized his remarks under four broad headings, and like Iacon Head, began by addressing the applicability of the "North-South" label.

1. My feeling is that in the late '80s we should no longer use "North-South" as a short-hand description of the relationship between the industrialized and "developing" countries. If it was ever adequate, it is now a deformation of reality—socially, economically, and politically.

   There was a time when (at least politically speaking) the term had a certain relevance. That was the period of successive attempts at so-called global negotiations, that aimed at defining principles and objectives between "North" and "South" by consensus in the United Nations and its specialized agencies like UNCTAD and UNIDO. Special sessions of the General Assembly were devoted to the definition of a "New International Economic Order," for which input from the South was well coordinated and often impressive. The South coordinated positions in the "Group of 77," and in the non-aligned movement—and the North within the framework of the
OECD. The last substantial attempt to reach a breakthrough on this rather abstract level of economic policy-making was the Conference on International Economic Cooperation (CIEC, Paris 1976/77). After that, the United Nations failed to make further progress in the so-called Committee of the Whole.

This does not mean that these attempts at global negotiations were useless. First of all, they were a valuable learning process for all involved: for the newly independent countries, which had for the first time to assert themselves in the international arena and to try to define their economic interests in a rapidly changing world, but also for the industrialized nations, which were not used to sharing their economic dominance with other parts of the globe. The global negotiations also produced some practical results, but they tended to overrate and over-emphasize certain issues (stabilization of commodity prices with the help of a common fund, for instance), and to underrate others (the importance of a climate conducive to investments, for instance, or of rural development).

The second oil-shock at the end of the ’70s made it more and more difficult for the developing countries to maintain unity in their ranks, whereas the non-aligned movement lost its leadership and its credibility after an attempt to shift it towards a Cuban-type posture in world affairs.

Looking at the “South” at present, we are struck by an enormous diversity in development over the last 15 years. A French scholar, Guy Sorman, has come to the conclusion that economic success does not depend on objective circumstances like a country’s natural endowment, but in the first place on the way a country is governed. He compares Kenya with Tanzania, which has received more development aid than any other African country but ended up amongst the poorest—similarly for the Ivory Coast compared with the catastrophic situation in neighboring Ghana and Guinea. Lack of natural resources in no way prevents development. Taiwan, amongst others, proves this.

2. The struggle for the allegiance of the Third World is, for all practical purposes, over. The attraction of the Soviet model is nil; the political clout and prestige of the USSR have suffered terribly since the occupation of Afghanistan. What remains is Soviet military power, and that is important enough in itself, but it goes without special glory. The member-states of COMECON are bad to extremely poor economic performers. Furthermore, Soviet development aid is small—and less than ten percent of this aid goes to non-communist developing countries. Nowadays, the Soviet Union is a non-participant in the development dialogue, either as a model or as an actor.

In parallel, there is nowadays much less debate about different development models. We have become much more pragmatic. We are not so much searching for a “New International Economic Order” as trying to make the old order work again. And that is, for the moment at least, a big enough challenge.

The challenge varies from region to region. Roughly speaking, the situation can be defined as per continent: Latin America, Africa and Asia. Thirty years ago, Asia was the great worry: how could this vast continent with those enormous masses of people ever rid itself of the specter of famine? And how could a famine-prone continent ever develop in a wider sense? Today, Asia produces surpluses of rice. The relatively better position of the Asian developing countries is illustrated by the proportion between their yearly exports and their external debt: whereas this proportion in Asia was about 1:1 (in 1986), it amounted to 1:2 for African countries, and to 1:3.5 for the Western Hemisphere developing countries.

The African developing countries’ debts are mainly official debts; the burden of debt service has become unacceptably high for many of them (50 percent of export earnings on average in 1986). In 1987, not less than 11 African countries turned to the Paris Club to ask for restructuring of official debts. Since the beginning of the ’80s, falling raw material prices, drought, desertification, famine, and civil wars have struck sub-Saharan Africa. Debt relief is inevitable, but must be conditioned by appropriate adjustment programs. Some donor countries have moved in this direction already. I should like the EC-12 to act accordingly in the Lomé Convention context, which would induce others to do the same.*

*The European Community’s partners in the Lomé Convention are 66 African, Caribbean and Pacific (ACP) countries. The Community and the ACP group will begin talks in September 1988 on renewing the current five-year Lomé Convention, expiring in 1990.
Much more complicated is the Latin American situation, because of the heavy involvement of the private banks. Before discussing those problems further, we must however look at another aspect of “North-South” problems, namely the coordination of macroeconomic policies in the North.

3. Keeping our world on the path of reasonable and sustained growth will succeed only with a minimum of coordination between the main industrialized powers. A successful adjustment process requires slower growth of internal demand in the United States and faster growth of internal demand in Japan, the Federal Republic of Germany, and a few other surplus countries. Without a continuation of growth, the solution of the problems of indebtedness of developing countries will be totally out of reach. So, the first requirement is reasonable behavior between the Northerners.

4. The most flagrant anomaly in the North-South relationship today is the net outflow of capital from the developing countries to the industrialized world. This perverse flow started in 1984 to the tune of $7 billion and is now estimated by the World Bank to amount to $30 billion, a reversal of more than $60 billion when compared to the net inflow of $35 billion in 1981. Developing countries have had to meet this turn-around by a corresponding compression of imports, levels of income and investment. Between 1981 and 1985, debtor countries had to reduce their imports by $40 billion; both the United States and the European Communities saw their exports to the debtor countries drop by 30 percent. If left to itself, this situation will worsen. How can the vicious cycle be broken?

An early advocate of truly innovative answers was Dr. Johannes Witteveen, former Managing Director of the IMF, who proposed in 1983 an insurance system—closely linked to IMF programs and performance thereunder—to promote private lending to debtor countries from the surplus countries. Rather than persuade the Japanese to slash their very high savings ratio, Japan’s excess savings should be channelled to developing countries in dire need of capital, Dr. Witteveen suggested.

Recently, a similar idea was put forward by Saburo Okita. He chaired a 1987 study group of the World Institute for Development Economics Research (WIDER) that said that Japan, in particular, should take the initiative and launch a $125 billion five-year plan for resource transfers to developing countries. Such an initiative would be fully in line with the recent three-year program already undertaken by Japan; it would amplify it and would hopefully be matched by other donor countries. The effect would be “to permit a more gradual and longer-term adjustment process, and in doing so moderate the stringent conditionality attached to lending by international financial institutions, which has had the effect of discouraging developing countries from having recourse to them sufficiently early in the build-up to a crisis.” There are clear signs that the officials of the IMF and of the World Bank would welcome such a shift, but the necessary resources must first be made available.

May I submit that Saburo Okita’s plan for mobilizing international surpluses, in conjunction with ideas about handling the problem of the highly indebted developing countries, be put on the future agenda of the Trilateral Commission?

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**Saburo Okita**

I remember some years ago Goran Ohlin, a well-known Swedish economist, saying that when we—he means people from the North—deal with North-South problems, we should have warm hearts and cool heads. We Scandinavians, he said, sometimes deal with this issue with warm hearts and warm heads. But, he said, this may be better than those people with cool heads and cold hearts.

*After this opening, Saburo Okita focused his remarks on the guiding principles of development efforts over time—efficiency, welfare, sustainable growth—which now need to be combined and applied in a more differentiated “South.”*

I was one of the eight members of the Pearson Commission which produced *Partners in Development* some 20 years ago. The Pearson Report emphasized the importance of giving aid to developing countries in order to make aid eventually unnecessary. The idea was that with supplementary capital and technology, the poor countries could develop themselves, eventually reaching the stage where further
aid was unnecessary. That is the graduation theory or philosophy.

There was some reaction to this Pearson Report idea—of focusing support on those developing countries performing well economically. The reaction was that this strategy would cut off the very poor countries which cannot improve their performance because of various constraints and because of external conditions like terms of trade and unfavorable prices for commodities. These opponents insisted that aid should be given on the basis of the welfare principle, rather than the efficiency principle. They argued that the purpose of aid should be to help the poorest people achieve a reasonable standard of good nutrition, sanitation, and primary education.

Looking to the present, we still confront those two philosophies in dealing with the aid issue. Countries like Korea, Taiwan, and others have succeeded in graduating from their status as aid recipients; and they are now moving to the side of aid donors. But at the same time, we see stagnating and impoverished economies in Africa and parts of Asia, such as Bangladesh.

There has been a gradual recognition of this differentiation among developing countries. Some ten or fifteen years ago, when I was a member of the U.N. Committee for Development Planning, with some others I expounded that the North-South confrontation is a rather simplistic notion: there must be some differentiation among the South, and there should be different strategies for each group—the very poor, middle-income, oil-exporting, and NICs. At that time, the idea was not very much welcomed by the developing countries. They said that this was a plot to undermine the solidarity of the South—politically it might have been so.

When last July I was asked to give the third Raul Prebisch lecture, just before the beginning of UNCTAD-VII in Geneva, I noticed a growing realism among the South—their ideology has become much less a factor in dealing with North-South problems. On the other hand, the North has become somewhat ideological—preaching that the market mechanism will solve all the problems, that private enterprise should be the main factor for the alleviation of poverty. There is some truth in it. But I feel that for macro policy some sort of planning is necessary, while for micro-management a more market-oriented approach is necessary.

So, there is the efficiency principle, and the welfare principle. I feel there should be another principle—that is, the sustainable growth principle that was expounded in the recent report of the World Commission on Environment and Development, chaired by Mrs. Brundtland, the Norwegian Prime Minister. I was one of the Commissioners again. We have to look at the issues of global importance, such as tropical forests, the greenhouse effect, and acid rain. Many things are taking place that transcend national boundaries. Furthermore, the world has become increasingly small with convenient transportation and communication. Also, we see that the environment problem—that 20 years ago was mostly interpreted as pollution in industrial countries, or overuse of natural resources—now includes the question of pollution coming from poverty, which is very serious in Africa, Nepal and Bangladesh. And those issues will have to be tackled mostly by developed and developing countries together, for the sake of the future of the human race.

In conclusion, if we hope to see progress, the efficiency principle, the welfare principle and the sustainable growth principle will have to be combined and applied in accordance with the basic conditions of the developing countries, which have to be differentiated from one another.

● Ivan Head is President of the International Development Research Centre, and former Chief Foreign Policy Advisor to Prime Minister Trudeau  ● Edmund Wellenstein is President of the Netherlands Institute of International Relations, and former Director-General of External Affairs, Commission of the European Communities  ● Saburo Okita is Chairman of the Institute for Domestic and International Policy Studies, and former Japanese Minister for Foreign Affairs
North-South Issues: Summary of Discussion

The session was set up to review North-South issues, but the interesting point is that there was widespread questioning of the relevance of the term North-South, especially South. Many seemed to feel that such an aggregate term is too misleading to reflect the complex relations and diverse conditions and needs that currently exist among nations. A few recalled the times when the term North-South had a certain relevance, especially by uniting the developing countries in various United Nations fora—to exert political pressure to gain concessions from the industrialized nations of the North. Some noted that it was given to this confrontational period of the 60s and 70s as a learning experience for all who had been involved.

One member felt, however, that some concept—that necessarily the term South, but some concept—is important to help cultivate awareness of the problems faced by many developing countries, and believed that would lead to coherent action vis-à-vis the problems. However, to cope with issues of today’s world, some felt that the notion of North-South should even be expanded—which is a strong suggestion, I thought—in order to arrive at a more realistic understanding of the problems that must be faced.

Most people emphasized the need for policies to address specific issues, not necessarily common to all the South, such as high debt burdens, deteriorating terms of trade for primary products, and protectionism against labor intensive manufactured products. Among the major differentiations noted were the varied levels of development reached by the developing countries and the wide disparities among regions and countries. Latin America, Africa, and Asia, differ greatly in the size and structure of debt, the degree of environmental degradation, the pace of population increase, and the skills of governments. Particular attention was drawn to the fate of the sub-Saharan countries as requiring special measures.

Although much of the discussion centered around the question of debt, several participants emphasized the importance of giving heed to environmental and political factors. On the question of debt relief, several participants stressed the negative consequences of the net flow of capital from developing to developed countries. Reversing this flow is considered essential for restoring growth in parts of the developing world. There was widespread agreement that the banks alone, on a voluntary basis, could not provide net positive new capital to the debtor countries, and that some public guarantees are necessary.

As to specific measures to deal with the debt problem, proposals ranged rather widely—from modest re-scheduling schemes to new recycling proposals of various magnitudes. One participant proposed to set up a Tokyo Club, somewhat like the Paris Club. But this Tokyo Club would coordinate massive recycling of capital, and would be headed by an outstanding international leader.

Aside from the question of debt management, some emphasized the importance of dealing with the question of alleviating poverty. The point was made that a substantial reduction of absolute poverty is not only for the welfare of the people involved, but is also in the economic and humanitarian interests of the advanced industrial countries. It was also noted that continued aid for alleviating illiteracy, famine, and capacity-building of various sorts—whether it’s technological capacity or scientific research capacity—does not necessarily require large amounts of capital, but rather long-term sustained efforts to enable the recipients to assimilate the benefits. These are still considered as very important efforts to be undertaken.

One participant called attention to the need for greater coordinating mechanisms among the Triilateral countries—to deal with the problems of poverty in the absence of any centralization of international organization directed at these problems. In connection with the question of common strategies among the Triilateral countries to deal with the issues of debt and poverty, the discussion centered around the expanded role of Japan. Several participants emphasized that the international contribution expected of Japan is not so much one of expanding its defense beyond reasonable self-defense capability, but that what is expected of Japan is that it increase its Official Development Assistance in the next few years. Various target figures were discussed, such as reaching 0.7 percent of GNP by the year 1992 and one percent of GNP by the year 2000. (But it was pointed out that when you calculated the actual amounts, these become very astronomical figures, and therefore, the question of the assimilation and the management of the aid is another problem that would also have to be examined and discussed.) Improving the quality of Japanese aid—i.e., more grants to the least developed, as opposed to loans—was also considered necessary.

—Sadako Ogata
Sadako Ogata's summary of the discussion of North-South issues was followed by a few reflections of her own.

I would like to make three points on the issue of North-South.

My first point is that we discuss development, debts, economic growth, and so on, in a fairly abstract manner. My own feeling—and this is more of a plea, maybe—is that we should really discuss development at the human level, because it is a question of human misery. My own exposure to development problems is in the field of children, refugees, and women. I think we must always ensure that when we talk about development, we think in terms of the human aspect involved, and not just the size of the debt, rescheduling, and economic growth figures.

My second point relates to the question of disparities. In the beginning, there was a long discussion about the concept of the South not being relevant anymore because of the wide disparity in the level of development among nations. This is a fact; and this is a very healthy fact. But I don’t think we went as far as discussing what disparity really means; and what we are going to do about the disparities now that they exist.

There are two dimensions that I would like to draw your attention to. One is the disparity within nations. We did not go into the question of growing disparities within developing nations. I think the question of rapid urbanization in many of the developing countries is a very serious problem. And we should also judge our aid programs in terms of whether or not they increase the disparities that are already growing in the developing countries. Here I think greater consultation of aid policies among Trilateral countries may be very important.

The second dimension—my third point—is the growing differentiation among developing countries. Earlier we discussed the question of whether we should bring Korea into the OECD. There are many countries that are reaching the level where they are in a position to cooperate and—I don’t like the word “donors” very much—help other countries: Korea, China (which is already doing quite a bit), and Taiwan come to mind. I think the question of differentiation among developing countries necessarily leads to the question of what kind of procedures and mechanisms should be set up in order to bring the newly industrialized countries which are in a position to help, into the system as contributors. And here I think the Trilateral countries could support and encourage this new development.

One more aspect of this differentiation relates to the question of so-called South-South cooperation. I think that South-South cooperation is now at a stage where it is becoming more realistic. The newly industrialized countries are in a position to be able to give more adequate technical assistance, or more appropriate technical assistance, to the countries that are immediately following them.

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Michel Tatu
The Meaning of Soviet Domestic Reforms for the West

In Japan 15 years ago, at the first meeting of the Trilateral Commission, I can imagine we discussed détente, and certainly the view was widely held that a new era had come. But, in fact, disappointments were to come a few years later, with Soviet involvement in Angola and Ethiopia, the Soviet invasion of Afghanistan, and the build-up of the Soviet military, illustrated, among other things, by the deployment of SS-20s against Europe and Asia. Although the West put some obstacles in the way of East-West cooperation—such as the Jackson/Vanik Amendment in the U.S.—these obstacles were only marginally responsible for the failure of détente. The first détente failed because it was not accompanied by the slightest change in Soviet domestic policy. Détente was, in fact, for the Soviets a way to escape those domestic changes which were already necessary; it was an instrument to convert their military build-up into political benefits and a diversion out of the state of stagnation that gripped the USSR in all areas, excluding the military.

By contrast, what we see with Gorbachev is more serious for the simple reason that this time détente is accompanied by important domestic changes. We see a genuine attempt to revitalize the Soviet economy and to adapt Soviet structures to new realities. In Communist countries, even more than elsewhere, domestic and foreign policy are closely linked, if only because internal reform needs a more stable environment and less antagonistic relationship with neighbors and potential partners.

...“new thinking” might be... just “thinking” after a period of no thinking at all.

The changes we see in the Soviet Union invite two broader questions related to our attitude and what Gorbachevism means to us. First, is Gorbachev a challenge for us? And second, should we help Gorbachev, and how?

I would accept that Gorbachevism may be challenge for the West in certain tactical areas, but certainly not in a broader philosophical sense. What we are seeing cannot be qualified as a challenge for two reasons: First, Gorbachevism is, in many areas, just a late and painful recognition that the Soviet Union was on the wrong track. It’s only after 20 years of stagnation that we see a partial reconciliation with objectivity and common sense. It is good that stagnation, alcoholism, corruption, and the like are now denounced in Moscow, but these are their problems, not ours. In that sense, we do not need a perestroika or restructuring of Western policy, as Gorbachev sometimes suggests. And if we talk about a challenge, it would be better to talk about the Western challenge to the Soviet Union, which has produced Soviet perestroika, more than the other way around. As far as foreign policy is concerned, we might also say that “new thinking” might be, after all, just “thinking” after a long period of no thinking at all. (But we must confess that it is sometimes a challenge for Western governments, if only because it compels us to define our interests much more carefully in terms of arms control, in particular. We have to be prepared to defend the right position in a more flexible and moving context.)

There is another reason why we should not rush to qualify Gorbachevism as a challenge. Up to now (especially in domestic policy) it is more words than deeds, more intentions than facts. Russia has behind her a long tradition of centralized management and bureaucratic inertia. So what we now see is, in fact, not real perestroika, but a protracted and bitter fight of Gorbachev against all sorts of opposition to perestroika and the like. We could summarize by saying there are at least three different kinds of opposition, which reinforce one another: 1) inertial opposition of the population at large—which still prefers the security and the poor advantages of the old system, and which has not yet seen the benefits of perestroika, while having already begun to pay the price; 2) normal institutional opposition—with millions of bureaucrats who cannot easily change their style of management and accept a loss of their power; and 3) ideological opposition—by a group of people, including leaders, who are afraid, who feel that the regime is moving towards a dangerous revisionism.

This opposition is clearly also represented in the Politburo. To be quite clear, it is fair to say that a clear majority of the present leadership supports perestroika, that is, large-scale economic reform. There is also widespread support for changes in foreign policy, including the INF treaty and pullout from Afghanistan. But as far as glasnost, and, more generally speaking, democratization of the political system are concerned, my impression is that Gor-
bachev and his few friends are in the minority. I think someone said that the Soviet Union had the choice between two crises: either an economic crisis if they do nothing, or a political crisis if they do something. Clearly, Gorbachev has chosen the second. We very likely could be moving towards a political crisis similar to the one we saw under Khrushchev 20 years ago. I don't mean Gorbachev may be ousted like Khrushchev—that's not likely, but it is still possible—but that, like Khrushchev, Gorbachev may have many problems and political crises during his tenure in office.

We very likely could be moving towards a political crisis similar to the one we saw under Khrushchev....

Should we help Gorbachev, and if so, how? We cannot deny that the emphasis that is now placed on the private sector of the economy and on glasnost are steps in the right direction. We would like to help, but as is the case with China, direct outside influence is probably nil, although the impact of outside ideas inside the Soviet Union is undeniable. The Soviets will certainly need to rely on technological cooperation, but such cooperation will be efficient only if the fabric of economic life in the USSR can absorb this technology, which is not now the case. And let's not forget that Moscow's present policy is to promote Soviet technology first. They do not say that they should buy more abroad, but that they should buy less. Second, I do not believe that a linkage between increased economic cooperation and political conditions is advisable nor practicable. We have seen these policies pursued in the past with no decisive results.

I would like to conclude that as far as political change in the Soviet Union is concerned, let us watch what happens—let us try, at least, not to hurt Gorbachev's experiment, even if we cannot help—and let us also look at a few main tests of Gorbachevism in foreign policy. I would say two such tests have to be watched: one is Afghanistan, and the other is Eastern Europe. As far as Eastern Europe is concerned, we should expect some improvements there. This is not yet the case, but the time has final-

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Strobe Talbott
The "Trilateralization" of Arms Control

I have been asked to speak about a very specific aspect of East-West relations—arms control—and to do so with an eye to the changes that have taken place over the 15 years since the Trilateral Commission was founded. There has been an overall increase in consultation, cooperation and coordination among the industrialized democracies in the way that they deal with the common challenge of the military threat posed by the Soviet Union. Arms control has evolved from an essentially bilateral activity between the superpowers into one that has become increasingly multilateral on the Western side of the table. Let's look at the contrast between now and then.

When the Trilateral Commission first met in Tokyo 15 years ago, SALT I had been in force for a year, and SALT II was just getting under way. Arms control at that time meant primarily strategic nuclear arms control; it concerned mainly those weapons that the United States and the Soviet Union had targeted against each other.

The deterrence that arms control was intended to enhance was central deterrence, as opposed to extended deterrence. The regional nuances of deterrence—the issues of shorter-range weapons, so-called gray-area and forward-based systems, as well as problems posed by the independent deterrent forces of the United Kingdom and France—hovered around the periphery of the Strategic Arms Limitation Talks. But that's where those issues stayed, at the periphery—to be swept under the rug if possible, deferred to future negotiations, or tucked ambiguously and inconclusively into the protocols, footnotes and fine print of the agreements when they were signed, particularly SALT II.

Similarly, the issue of conventional forces remained very much off to one side. Although the problem of asymmetries in the conventional-force balance between NATO and the Warsaw Pact was acknowledged to be worthy of concern, even to the point of meritings its own separate negotiation, the Mutual Balanced Force Reduction Talks (MBFR) went nowhere. It was, arguably, the least productive East-West negotiation of the postwar period. Moreover, MBFR was thoroughly and very deliberately unlinked from SALT. The problem of Soviet nuclear forces in Asia and the threat that they posed to Japan and other U.S. allies in the Pacific was, for all intents and purposes, not on the agenda at all.

The current period of arms control is quite different in a number of respects. Issues of extended deterrence, alliance strategy, regional security, and conventional force balance have, quite properly, moved from the sidelines close to center stage—both in American diplomacy with the Soviet Union and in deliberations among the Allies over military doctrine and deployment. I think it's significant that of the two major negotiations undertaken by the current U.S. Administration—the intermediate-range nuclear forces (INF) talks and the Strategic Arms Reduction Talks (START)—the one with the most explicit and compelling transatlantic dimension began earlier and reached a successful conclusion earlier than the more purely bilateral Soviet-American negotiation. That is partly because America's allies insisted on progress in that area; and they insisted against initial resistance by Washington. The Reagan Administration, for ideological reasons, was reluctant to pursue arms control in 1981. It had to be goaded into doing so, and the pressure came, in the first instance and most palpable form, from across the Atlantic. During the course of the INF negotiations, the Administration consulted regularly, if not always harmoniously, with its allies and strategic partners in Europe and Asia. Moreover, beyond mere consultation, the views and exhortations—and indeed the objections and remonstrations—of those allies had a direct bearing on the evolution of American proposals.

Last year, Chancellor Kohl's initiative with regard to the disposition of the Pershing II stationed in the Federal Republic made possible a key breakthrough in INF; and on an earlier occasion, in 1986, Japanese as well as Chinese reservations about how a tentative American counterproposal in INF would affect Soviet SS-20s in Asia led directly to the Reagan Administration's toughening its demand for the global elimination of the SS-20s. To be sure, the transatlantic and transpacific interaction has not always been beautiful or reassuring to observe. There has indeed been a kind of Perils-of-Pauline quality to consultations with the Allies and their influence on U.S. negotiating policy. But I would contend that in this instance the glass is at least half full. America's partners have gotten used to giving advice where their security interests are concerned, and the United States has gotten used to taking that advice. The challenge is to make that process of give-and-take more orderly. That imperative will become particularly unavoidable as we buckle down to future nego-
tions on short-range nuclear systems and on conventional forces.

There is another factor that has, in an unintended but powerful way, increased the determination of American allies to participate in the doctrinal and diplomatic aspects of promoting security and stability. That is the nuclear romanticism and isolationism of the current President of the United States, which I would suggest has backfired on him in a way that is healthy for the rest of us. Ronald Reagan is not the first American President to come into office dreaming out loud about eliminating nuclear weapons from the face of the earth. His predecessor did the same thing. But unlike Jimmy Carter, Ronald Reagan pressed the point. Most notoriously, of course, he pressed it at Reykjavik, where he seemed eager to join in a superpower condominium that would have eliminated all nuclear-armed ballistic missiles, perhaps all nuclear weapons of any description, within ten years—thus, by definition, totally undermining both the concept and doctrine of nuclear deterrence.

And on top of that, there has been the Strategic Defense Initiative, the foreign policy program that Ronald Reagan cares about more than any other. SDI is, at its very core, not just abolitionist, but unilateralist, and even isolationist. What appealed to the President initially in 1983 and what appeals to him today is the notion of repudiating traditional deterrence—of, in his words, “rendering nuclear weapons impotent and obsolete.” I am speaking here about the purest, Presidential sanctioned version of SDI. There have been subsequent refinements of the original concept. There has been, at the behest of some of the President’s rather nervous and embarrassed advisors, an offer to share the technology—or, on second thought, the benefits of the technology—with the Soviet Union. There was a notion about inviting the Soviets to participate jointly in managing the transition to a world in which deterrence is based on “mutual assured survival” rather than mutual assured destruction. And, of course, there was a professed willingness to share the pork barrel of billions of R&D dollars with America’s allies, as well as extending over their heads the umbrella of a deployed system. But these were all afterthoughts, and not Presidential afterthoughts: they were, quite deliberately, obfuscations of the essence of SDI—and the essence of its appeal to President Reagan. For him, SDI contained and continues to contain a vision of Fortress America as Battle Station America. It is something that the United States can own on its own, and itself, immune to vetoes of others, countermeasures by others, or compromise with others. It is in that sense that SDI is, at its core, unilateralist and isolationist. As much as this feature of the program has been denied by its advocates, it has been perceived by its critics—and by America’s allies, who have done much, primarily behind the scenes, to bring SDI, as it were, down to earth.

To conclude, the twin experiences of seeing SDI spring full-grown from the forehead of the President in March 1983, and then, three and a half years later, seeing what almost emerged when President Reagan and General Secretary Gorbachev put their heads together at Reykjavik were a double shock. They have fortified the determination of America’s allies to participate more actively in the debate not only over deployments and diplomacy affecting weapons that might be based on or aimed at their own territory, such as Pershings and SS 20s, but the strategic debate as well.

There has always been a synergy operating among strategic-nuclear, theater-nuclear and conventional deterrence. That synergy has long been recognized by theoreticians, military leaders, and statesmen. But, until recently, it has been honored more in the breach than in the observance by actual negotiations and agreements. That seems to be changing, probably for the better, although not always for reasons that reflect deliberate far-sighted leadership.

What is sometimes called the multilateralization of arms control—and might on this occasion be called the Trilateralization of arms control—is unquestionably a complicating factor for the future, but a necessary one nonetheless, and therefore, let us hope, a manageable one.

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In the coming decade or so, Trilateral political and security cooperation may be even more important than in the past, yet it may be even more difficult to achieve. At a time when the large powers are looking increasingly inward and are in the process of reducing tension between themselves, there may be a tendency in the Trilateral countries to be less concerned about alliances and cooperation in the security field. Moreover, détente on the East-West security front means that economic issues will increasingly dominate international relations headlines. Since these issues typically pit the Trilateral countries against one another, their continuation and possible increased prominence may make political and security cooperation more difficult. Moreover, West Europeans and the Japanese continue to think that because they are far apart geographically, they are not interdependent in security terms. The two regions are perceived to be connected primarily through Washington, and they often regard themselves as strategic competitors in seeking U.S. power. In the past, Japan has sometimes sided with the Europeans in moderating more rigorous and inflexible U.S. policies, while the United States has encouraged Europeans and Japanese to promote mutual dialogue between themselves.

A number of factors will make Trilateral security cooperation increasingly important.

First, the willingness and ability of the United States to undertake the same level of leadership in international security affairs without greater contributions from its allies is highly doubtful. This is partly the result of a relative decline in the strength of the United States (where the recent popularity of a history book pointing to the role of heavy military burdens in the decline of previous large powers attests to the concern about the ability of the U.S. to sustain its previous role and remain a great power). Willingness to retain large forces overseas may also lessen as a consequence of generational change—the memories of World War II are receding into the past. Moreover, the United States faces difficulties in maintaining base rights in some overseas areas, e.g., Spain, Greece, Turkey, the Philippines. Failure of host countries to continue to welcome U.S. Forces may encourage U.S. withdrawals.

We can anticipate that the United States will continue to seek increased “burden-sharing” from allies to reduce its own burdens. This is especially true of Japan because of the large discrepancy between U.S. and Japanese defense burdens.

Second, should détente continue, regional issues and relatively low-level security threats (such as terrorism) are likely to be the more visible security concerns of the Trilateral allies. This, of course, is already the case with Gulf shipping—a consequence of local war that has developed into the major recent concern. These areas are ones where often Trilateral cooperation is not especially costly, and where a number of major Trilateral countries may have capabilities to intervene. In particular, the exchange of intelligence and analysis can be encouraged, as well as a division of labor in providing the economic and military resources that may be needed to cope with these situations.

It should be noted that regional conflicts were a principal factor in the decline of détente after the mid-1970s. It is therefore in the security interest of the Trilateral countries to maintain stability in such areas not only for their own sake but also to prevent regional conflicts from impeding desirable trends in East-West relations.

Third, the extension of arms control into the strategic and conventional areas (after INF) provides an important incentive for Trilateral cooperation. In fact, the West’s bargaining position on INF was enhanced by Trilateral coordination. Similarly, as the Trilateral countries try to capitalize on the Soviet Union’s apparent interest in reducing its military burden, they can strengthen their bargaining leverage in other arms control areas through cooperation. Moreover, like INF, conventional arms reductions have important Asia-Europe trade-offs; and it is important for the Trilateral countries to ensure that reduced forces in one theater not come at the expense of the other. The important point is to present the Soviet Union with a non-threatening but united trilateral effort.

DECISIONS AHEAD
In the long run, the Trilateral countries face continu-
ing dilemmas at the national policy level in strengthening their political and security cooperation.

The United States will be making some fundamental decisions regarding its overseas commitments and force structure in the coming decades. The dilemma for the United States is how to reduce its own burdens, while, at the same time, not jeopardizing Trilateral security. It seems likely that some relative reduction in the U.S. role will take

...it is still politically unfeasible to expect an expanded Japanese security role in the short term.

place, and it is up to the United States and its Trilateral allies to make sure that this process occurs relatively smoothly, so as not to unnecessarily create security concerns.

Western Europe can be expected to assume greater burdens for its own security; and it can be expected to continue to play a role in international security in adjacent areas such as the Middle East and Africa. The possibility of enhancing security by greater integration of European efforts is an important question here.

Japan has been willing to engage in political and security dialogues with the Western allies, but it continues to adhere somewhat rigidly to a policy that in theory denies military participation in collective security. Although Japan’s willingness to act “as a member of the West” is increasing, it is still politically unfeasible to expect an expanded Japanese security role in the short term. Obviously, a major Japanese defense build-up under present security conditions in the Far East would be more destabilizing than stabilizing. But using existing forces more flexibly on behalf of common security interests, as in the Gulf, could prove advantageous. Japan can expect to be pressed by the other Trilateral nations, from time to time, to contribute militarily, not just politically or economically, to common interests.

Nonetheless, Japan is steadily increasing its international political and security role. That is probably better recognized by the U.S. government than by those of Western Europe. Michael Armacost, U.S.

Undersecretary of State, recently noted:

Japan is no longer merely reacting to the vicissitudes of the external environment. It has become a powerful player on the international political and economic scene. It has identified itself with the Western industrial democracies. It is becoming “internationalized” in the sense that it recognizes not only that it has responsibilities to the international community but also that its self-interest requires it to meet those responsibilities.

CONCLUDING REMARKS
The continuing need for Trilateral security cooperation, and the growing acceptance of that need in Western Europe and, even more, in Japan, provide a rich agenda for future Trilateral Commission work. The importance of Trilateral political and security cooperation, and the constraints at the national level, are certainly issue areas that merit continuing consideration.

Trilateral cooperation in specific areas also needs greater attention. Such areas include the new arms control issues, as well as regional problems and localized security threats with broader implications. The potential for increased Trilateral cooperation in enhancing national capacity for self-defense is another topic that can be usefully explored. For example, exchanges of military technology, and the joint development of such technology, can help make national defense efforts more efficient. Similarly, the Trilateral countries can strengthen their collective security through the exchange of security-related intelligence on both strategic and regional security issues.

In the 15 years since the founding of the Trilateral Commission there has been a growing recognition of the value of trilateral political and security cooperation. There is still a great deal of potential for additional cooperation. As it has in the past, in the case of Japan, the Trilateral Commission can play a catalytic role in helping this potential be realized.

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INTERNAL CHANGES IN THE COMMUNIST WORLD

By and large there was an overriding consensus that the changes that are taking place in the Soviet Union are serious, that they're very important, that they're not a sham, that they're not just some transient or tactical maneuver. On this there seems to be almost complete agreement.

There was some disagreement, however, on their future prospects. By and large, the majority view was that the changes that are in progress are, in all probability, still subject to some reverse, or at least halt. Although the point of view was also expressed, though less frequently, that these changes were irreversible in nature. But even those who by and large were of the view that the changes are still serious in their character were inclined to the conclusion that, in any case, there would be no full turning back of the clock—that the genie that has been let out of the bottle cannot be fully placed back in it, even if there were to be some dramatic political upheaval in the Soviet Union.

More specifically, with regard to internal changes in the Soviet Union, the view was widely shared that the key issue is the role of the party. How the party defines that role for itself, particularly in relationship to the governmental structure, will define the scope of change and the nature of that change. And on this issue there was a great deal of doubt expressed as to the ability of that deeply entrenched, deeply rooted-in-tradition party (and particularly its nomenklatura) to alter in any significant way the traditional relationship that it has sustained and asserted over so many decades.

In that respect, in contrast, the view was expressed that the chances of more far-reaching changes in China were considerably higher. The point was made that the Chinese break with the collectivized patterns in agriculture represented a very significant commitment that had an institutional implication for the role of the party, a commitment which the Soviet party so far has been unwilling to make, either practically or even ideologically.

Regarding Eastern Europe, the view was expressed that the crisis was deeper, the prospects for change perhaps more dramatic, but less promising in terms of actual significant improvement in the status quo.

In brief, I think one is justified in drawing the conclusion from the discussion that we are dealing here with a wide-ranging systemic crisis of communism. And though it manifests itself in different ways in different regions subject to communist control—and in the case of China has certain prospects for actually successful reforms—there is nonetheless a systemic crisis of great historical significance.

EXTERNAL IMPLICATIONS OF THE INTERNAL CHANGES

What then are the foreign policy implications of this? In so far as the Soviet Union is concerned, the view was expressed that Afghanistan was the crucible and that how the Soviets handle Afghanistan will be a significant indicator of future Soviet behavior, particularly in the Third World. There was some inclination to the view that the Soviet Union now attaches a lower premium to international instability in the Third World as being automatically of benefit to the Soviet Union. That in turn led to some discussion as to whether the Soviet Union has become already a status quo power. On that there was considerable disagreement, even though there was some agreement that the Soviet Union, for the time being at least, is less inclined to promote regional instability in the Third World.

On a more specific issue, if there is progress on Afghanistan, there was some expectation that possibly the Soviets would wish to follow this by trying to resolve the issue of Cambodia, thereby opening the doors to a more wide-ranging accommodation with China. But the contrary perspective was also expressed, to the effect that that could undermine the Soviet position in Vietnam, and thus represent a prohibitive practice for the Soviet Union.

There was more direct disagreement on the implications of the "new thinking" in Soviet foreign policy (a term that the Soviets themselves use), specifically in regard to the degree of imaginativeness the Soviets might show with respect to Japan. Would the "new thinking" result in some dramatic new departures? The suggestion was made that the Soviets might, in fact, be willing to return all or some of the Northern Territories to Japan, as a dramatic expression of that rethinking, thereby perhaps opening the doors to a qualitative upgrading of the Japanese/Soviet economic relationship. That provoked some disagreement as to the probability of such an initiative.

There was some discussion also whether the new thinking involves the abandonment of the Brezhnev Doctrine in Eastern Europe. Here, by and large, the view was that that is still not the case. While the Soviets are not reaffirming the Brezhnev Doctrine, they have not been prepared to abandon it, except perhaps in specific bilateral discussions such as the one that took place...
between Gorbachev and the Yugoslav leadership pertaining to Yugoslavia alone. If the issue were to be tested, through an explosion in Eastern Europe, the Soviets would, nonetheless, in spite of all of the new thinking, reassert their power position. By implication, that led to the further thought that it is not in our interest for that proposition to be directly tested.

There was no discussion of changes in Soviet strategic doctrine. There was no discussion as to whether the Soviets are serious when they talk about the adoption of a new defensive strategy in their military posture.

POLICY IMPLICATIONS FOR THE TRIPARTITE WORLD

The foregoing led the group then to discuss the policy implications for the Tripartite regions. Here two major issues surfaced, and one subsidiary issue.

The first pertains to the very germane, often addressed issue, namely, should we help Gorbachev? Interestingly, in reference to that issue, there was no assumption made that Gorbachev would succeed. Rather, the question was put more in terms of how do we help him not fail, rather than how do we help him succeed. The emphasis of the help was more on the prevention of failure than on the enhancement of success. And in connection with the “help issue,” the point was made that it has to be viewed as a much more complex and difficult issue than just a question of help. That in any case, the capacity of the West for influencing internal Soviet political developments was limited; that we need more discriminating criteria regarding our objectives in attempting to influence somehow the internal course of events in the Soviet Union; and that perhaps the key question is whether it is or is not in the Western interest to promote the progressive integration of the Soviet Union into a larger cooperative world order. If so, what kind of selective policies could perhaps advance that more specific objective? There was, I hasten to add, general agreement that we should not deliberately undertake policies to maximize its internal difficulties. So at least the adverse of the question produced a unanimous response.

There was also, in this context, some discussion of more specific steps, including considerable agreement on the proposition that cultural exchanges should be advanced, and that trade expansion should be promoted, though with respect for the common Western interest in maintaining the COCOM technological impediments, given the applicability of some of these technological developments to Soviet military power. There was disagreement on whether it would or would not be in the West’s interest, bearing the foregoing in mind, to have the Soviet Union, at some point, become a member of the GATT system and the IMF. On this, opposite opinions were expressed in the course of the discussions.

The second major issue that surfaced, with respect to the policy implications for ourselves, pertains to the burden-sharing question. Here the point was stressed that, first of all, it isn’t really entirely a matter of burden sharing; it is also a question of sharing in the decision-making process, and that we in the United States, particularly, ought to be more conscious of that aspect of what we prefer to define as burden sharing. The point was made that burden sharing in defense and in security matters also involves a higher degree of sharing in decision making, that this issue is no longer applicable just to the Atlantic relationship, but is very germane to the Pacific relationship. And it was stressed that all of us have to address this issue in a more collective setting.

More specifically, the point was also made that we should have no illusions about the budgetary benefits in arms control; that in all probability, arms control will not result in significantly reduced defense expenditures, and in some cases might even increase such expenditures. The point was made that the next phase in arms control, namely, conventional arms control, is likely to raise very different political as well as military issues pertaining to alliance relationships—for more complex than has been the case in the past.

More specific matters involved some discussion and some disagreement over the future of Korea, the extent to which conflict there was likely, and the applicability of the German East-West dialogue in the Korean context. There was discussion of how urgent it is to exert more effort, particularly on the Soviets, to avoid some North Korean incursion in the course of the forthcoming Olympics.

There was also some specific suggestion that Tripartite cooperation could be enhanced, even with the Soviets, in intelligence sharing on nuclear proliferation and terrorism issues—issues in which we and the Soviets should have fundamentally a shared interest.

I may add that there was no discussion about the implications for Tripartite cooperation of possible changes in American strategy, and in American global force postures—something which is likely to emerge in sharper relief after the presidential elections.

—Zbigniew Brzezinski
As I look at East-West relations over the last decade or so, I would say that our central strategic objectives were the following: in so far as the Soviet Union was concerned, it was to contain the Soviet Union; in so far as Eastern Europe was concerned, it was to encourage greater diversity in Eastern Europe; and in so far as China was concerned, it was to normalize the relationship—formally so in the U.S. case, but also in a much wider sense—to make it part of the normal world process. Containing the Soviet Union was particularly important because of the dynamism of Soviet strategic build-up, and the seeming expansion of the Soviet Union in the Third World. Encouraging Eastern European diversity seemed desirable, especially in the wake of what happened in 1968—the Soviet occupation of Czechoslovakia. And the normalization of relations with China was clearly on the agenda since the early 70s.

As we look ahead to the next decade, let me suggest that our principal strategic objectives should be the following: to stabilize the relationship with the Soviet Union; to re-engage Eastern Europe in a larger European community; and to fully engage China in multilateral, global cooperation. These are the objectives which present conditions make possible; these are the objectives which are in our common Trilateral interest.

The process of stabilizing the relationship with the Soviet Union is going to be a complex one, and there are a great many uncertainties. Let me draw your attention to two.

First of all, I think it’s far from certain that we’ll get a START agreement with the Soviet Union by the time of the Moscow summit. In fact, I would argue that an agreement reached at or by the time of the summit is likely to be a bad agreement, which probably would not even be ratified; whereas an agreement reached later in the year—just prior to the U.S. elections in November, given the Soviet stake in political continuity in the United States—is more likely to be a better agreement, which will stand a higher chance of being ratified. But that leaves the issue of START somewhat open.

Secondly, there tends to be some presumption that the Afghan issue will be resolved on the basis of the Soviet withdrawal, followed by the emergence of a neutral and independent, presumably Islamic Afghanistan. I think we need to look more critically at that proposition. I think the chances are equally high that the Soviet withdrawal will ultimately prove to be partial, that northern Afghanistan will remain de facto under Soviet control, and thus, that we’ll have a partition of Afghanistan, with the “Lebanization” of the rest of Afghanistan—deliberately pursued by the Soviets, as a way of avoiding the emergence of a government in the rest of Afghanistan that might be hostile to the Soviet Union. And thus, in another fashion the issue of Afghanistan might remain open.

While it is the stabilization of the relationship with the Soviet Union over the next decade that is a reasonable objective (but not much more than that), the re-engagement of Eastern Europe—in the context of a Soviet Union preoccupied with its domestic affairs—into a larger Europe becomes increasingly timely. As someone said this morning, Eastern Europe is becoming Central Europe. I have long subscribed to the view that the existence of just a Western Europe and an Eastern Europe is an artificial post-World War II reality; that the genuine reality of Europe is a Europe which has a Western, a Central and an Eastern component—and that Central component would be gravitating towards the West in the years ahead.

And last, but not least, clearly with the opening of China to the world at large, and with its commitment to a massive modernization program, the opportunity for the full-scale integration of China into the world community now looms as a truly major geostrategic objective, one that is highly feasible, very much in our collective interest, and one to which the Trilateral regions can collectively contribute.
Japan in Motion: Policies Change Faster Than Attitudes

By Flora Lewis

TOKYO - Japan's attitude about accepting the responsibility of its staggering economic power does seem to be changing. The prime minister, the foreign minister and the finance minister all acknowledged the need to make a "concerted contribution" to the world's

The "new breed" is inclined to seek social and group conformity. It is this new sense of confidence and

Trilateral Kommission fordert stärkere Rolle Asiens

gh. Tokio (Eigener Bericht) — Eine stärkere Rolle in der globalen Wirtschaftspolitik will die in Tokio tagende Trilaterale Kommission für die Industrieland Asiens durchsetzen. Dafür müßten die asiatischen Länder

Corriere della Sera

DEUX DRAGONS

BIENTÔT À L’OCDE

LA CORÉE DU SUD ET SINGAPOUR POURRAIENT FAIRE LEUR ENTRÉE AU SOIN DE L’ORGANISATION

La Commission trilatérale a demandé, samedi à Tokyo, que les pays de l'Organisation de coopération et de développement économique acceptent en leur sein la Corée du Sud et Singapour. Cette commission.

Il Messaggero

Trilaterale

Preoccupazione per i debiti del Terzo Mondo

TOKYO — La commissione trilaterale ha concluso a Tokyo tre giorni di seduta plenaria, manifestando «soddisfazione» per il ruolo attivo del Giappone nell'economia mondiale, interesse per il programma riformatore dell'Urss di Gorbačev, preoccupazioni per il problema dei debiti e per la difficoltà di crescita dell'economia mondiale, grandi attese per l'arrivo del mercato europeo integrato nel 1992. La riunione del 2, 3 e 4 Corriere della Sera: la commissione trilaterale, un gruppo privato che raccolge le seminare griec.
Zbigniew Brzezinski was the first Director of the Trilateral Commission (1973-76). Some months before the Tokyo meeting, the three Chairmen asked Dr. Brzezinski to prepare a brief background paper for this fifteenth anniversary meeting, reflecting on where we have come and should be going. The following is excerpted from that paper.

Over the last 15 years, the Trilateral Commission has certainly helped to foster a sense of a wider community within our political and economic leaderships. The best measure of its success is the degree to which the very idea of trilateral cooperation has now become old hat. To be sure, much of that would probably have happened anyway, given the dynamics of international affairs. Nonetheless, the efforts of the Commission in propagating the geostrategic concept, and in advancing specific policy recommendations in order to enhance such trilateralism, certainly contributed to the currently widespread acceptance of the concept in our three regions.

At the same time, it must be acknowledged that the conceptual acceptance of trilateral cooperation is not the same thing as real trilateral cooperation. The triangle of cooperation is not equilateral; two arms are considerably shorter than the other one. The American-Japanese and the American-European connections still remain more intimate than the European-Japanese connection. The relationship with America is still the base of the triangle, its critical link and catalytic source.

Will this continue to be the case in the future? Moreover, should it do so? Much depends on one's vision of the future, and especially of America's future world role. My own instinct tells me that the rumors of America's imminent decline are vastly premature and based on misguided historical analogies. Two central considerations make America's current condition quite different from that of earlier "imperial" powers. The first is the almost unique American capacity for internal self-renewal, especially in regard to its national elites. Recent years have seen the infusion into America's leadership of new ethnic talent. All of that contributes remarkable dynamism and inventiveness to American society, quite unlike the fate of earlier major powers whose elites were either stricken by war, or by biological or cultural decay.

The second difference is that America's special global role is in the interest of those other major powers which have a vested interest in peaceful progress. The fact is that the displacement of America would not produce a stable replacement by another source of primacy, but rather global chaos and anarchy. All non-revolutionary states would suffer from such a development. Indeed, one of the remarkable paradoxes of our time is that even several communist states—notably China in the Far East, and some East European countries, as well—increasingly appreciate the role the United States is playing in assuring a reasonably stable pattern of economic and financial relations.

In effect, much of America's special global position is derived from the collective stake of others in an economically growing, politically responsible, and internationally engaged America. That is, of course, quite reassuring to us Americans. But an important implication also flows from this comforting conclusion: it imposes on Americans a special duty to eschew narrow nationalism, and especially protectionism, when shaping their policies.

Beyond that, inherent in the above condition is the obligation of America to pursue an increasingly consensual form of leadership. That means greater reliance on consultations pertaining to all facets of the global condition, including, increasingly, the security aspects and regional conflicts. Only such conduct is likely to enhance the stake of others in a reasonably controlled international environment. In turn, however, consensual leadership also means that America's partners must be ready to share not only in the joys of decision-making, but also in the burdens of policy-implementation. In the years ahead, that will be especially the case with defense expenditures, given the likely readjustments in America's global defense posture.

Our Commission should set the pace for thinking about such readjustments. To a large extent, we have already done so. But we should point the way further ahead by exploring actively what new forms of closer cooperation, on a more truly equal tripartite basis, are becoming both possible and timely. Surely, we have not exhausted all forms of enhanced collaboration; surely, we can do much more toward intensifying the intimacy of our relationships.

In brief, the last 15 years proved that our initiative was timely because we were willing to challenge those who felt that something new was not needed. Our next 15 years will be equally productive only if we are willing to pose new questions, to experiment with some new procedures, and to risk again being initially dismissed by those who are always satisfied with the way things actually are.