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It is my purpose to introduce a discussion on the evolution of the greater Europe and its future architecture.

First, I intend to describe briefly the state of the union, the state of the Community and the prospects for its internal development. Second, from this point of view I intend to analyze relations—present and future—with the other European countries and, naturally, the problems which arise, including two well-known formulae: the “common European house” of Mr. Gorbachev and the European confederation of Mr. Mitterrand. And finally, I intend, because many suspect the Community of concentrating all its efforts on the developments in Europe, to survey the different commitments of the Community in a changing world.

The state of the union and the prospects for internal development

I have no intention to repeat the progress achieved in economic terms, but simply to say the revival of the construction of Europe has delivered the results that we hoped for. A balance has been struck between the completion of the internal market without frontiers and the policies of individual Community countries. During the past five years we have reformed the Common Agricultural Policy. We have realized a saving of about 6 billion ECU a year, and during those five years the revenue of each farmer has declined about roughly five percent a year.

We also have set up policies designed to bring about structural improvement, the so-called flanking policies, to follow the achievements of the Single Market: aid for the least developed regions and for the renewal of industrial regions in decline; employment and training assistance for young people entering the labor market and the long-term unemployed; and aid to developing rural areas threatened by population flight. We have also built, more and more, attractive cooperation in research and technology, and I hope it is possible to extend this cooperation bilaterally with the United States and Japan.
The social dimension of the internal market is about securing a basic minimum of guarantees for workers, while at the same time fostering industrial relations at the Community level.

We have attained extremely positive results with the European Monetary System, which has given a powerful boost to the convergence of our economies and helped to bring about relative exchange rate stability. (And we also launched an effort, especially in the last two years, in the field of the environment.) We hope to achieve the Single Market—the full liberalization of the movement of persons, goods, services and capital—and, at the same time, to fulfill the flanking policies before the end of 1992 despite difficulties, notably in the field of the free movement of persons and in the harmonization of taxes.

On the other track of the Community—the foreign policy track—progress is inevitably slower, but it is now established practice to exchange information and analyses to seek a common position.

In terms of the attractiveness of the Community, the Community is being intensively courted. Some countries want to join it (Austria and Turkey, and perhaps tomorrow Norway, Cyprus and Malta). Others want to strengthen their cooperation with us and benefit from the potential of our Single Market. (We are having good discussions with the EFTA countries.) Other countries are asking for our aid and cooperation (the Eastern European countries, the Mediterranean countries, and the countries of Central and South America).

Starting from this present situation, what are the prospects for internal development? The objectives of the Single Market, I repeat, should be met by the set deadline, the end of 1992. Post-92 has already begun, in the first instance towards economic and monetary union. A conference of member states necessary to amend the Treaty of Rome, which is our constitution, will begin next December. But the first stage of this union will be underway already as of July 1, 1990. And it will be substantial. It requires that the Committee of Central Bank Governors become the main center to define more cooperation in monetary policy and, thereafter, to define the conditions for a single monetary policy.

On the economic side, the Ministers of Economy and Finance will conduct twice a year a multi-surveillance exercise, after which common objectives may be decided and recommendations issued to one or two countries not in line with the convergence of economies.

But there is more than the economic and monetary union. Since history is accelerating, notably in East-West relations, the Community must also accelerate. Hence the prospect of a second conference of the member states to study the substance and stages of political union of the Twelve in accordance with previous commitments, that is, the preamble of the Single Act, the last modification of the Treaty.

It seems to me that three reasons explain the initiative of Belgium, France and the Federal Republic of Germany in this direction. First is the increasing gap between the economic integration—advancing quickly—and so-called political cooperation, that is, cooperation in terms of foreign policy (which I already mentioned). This gap is very dangerous for the coherence of the Community in its external relations, especially in its external economic relations. The second reason is what we call the "democratic deficit" or, if you like, the necessity to reinforce the democratic accountability of the Community. This is very important, for example, if we achieve an economic and monetary union. And the third reason is that German unification must be realized under a European roof.

If you recall the history of the Community, at different periods we have had discussions inside Europe about political union. The first discussion was during the 50s in terms of defense and spawned the European Defense Community, which failed. After that there were many discussion between the partisans of confederation and the partisans of federation and lots of projects—for example, the Plan Pouchet no. 1 and no. 2 and also the dispute between General de Gaulle and the other participants. In other words, this is not the first time that the members of the Community have discussed the political dimension of the Community. But the most fundamental reason for the current movement is the very rapidly changing Europe. With proposals flowing from the USSR, from Eastern Euro-
pean countries and from other countries it is very important that the members of the Community renew their vows, the marriage contract of the Twelve.

**THE GREATER EUROPE**

After this short assessment of the Community’s current situation, let us pass to the greater Europe. From the precondition of security to a progressive organization of intra-European relations we must keep in mind three warnings. First, we need to adopt a cautious attitude and a step-by-step approach. Second, all our problems are influenced by the necessity of designing a new security concept and a new security system. (This is probably the most difficult problem.) And third, we must not destroy what exists already only to replace it with ill-conceived and hastily worked-out schemes. That explains the renewal the vows of the members of the Community.

I shall not speak at length about the new security concept, because this subject is a subject for a full meeting of the Trilateral Commission. Ideas are coming forward in abundance. In some cases, those expressing them are not voicing everything they have in mind. Several proposals are flawed by a lack of experience. I repeat, we must be careful not to drop our guard, not to slacken our vigilance. And we must consult closely within the Atlantic Alliance. But at the same time, we have to respond to the aspiration of our peoples for peace and for a new security order in Europe. Let us have an overall view but let us remain pragmatic.

The CSCE has proved to be very useful, but that is not a reason to make it the matrix of the greater Europe of tomorrow. Hence, the need for careful preparation for the next summit meeting of the CSCE.

The Community gives assistance to the countries of Central and Eastern Europe. I shall begin with the case of the German Democratic Republic because it is a specific one. To me, the East Germans have always been potential members of the Community. The Twelve Ministers agreed this week to the approach laid out last week by the European Commission. The Heads of State and Government should confirm without reservation this at the European Council at the end of this week.

Technically, what is involved is a sort of enlargement of the Community—technically, but not politically. One original feature is that the integration of the territories of East Germany into the Community will begin with the entry into force of German monetary union, that is, before legal unification. It is this first phase that will be the most delicate to manage from the point of view of the rules of the Community. We now have a clearer concept and procedure to start the process under good conditions. Naturally, much depends on the modalities of the monetary union. This morning we learned that the German government has decided to offer an exchange rate of one against one for salaries, wages and pensions, and for saving up to an amount of 4,000 marks, and two against one for the rest.

Politically, this is a monetary, economic and social union. But practically this is a monetary union followed by reforms in the economy and in social conditions. There has to be a transitional period to establish in the Länder of East Germany the *soziale Marktwirtschaft* or social market economy.

As to the other countries of East and Central Europe, they are going to benefit from the advantages offered to them by the trade and cooperation agreements they have recently signed with the European Community—Poland and Hungary, and soon Czechoslovakia, Bulgaria, East Germany (in the first period, before unification) and Romania. They are also going to benefit from the so-called PHARE operation launched at the summit of industrialized countries and coordinated by the European Commission, in which 24 countries, including Japan, are combining their efforts in close cooperation with the IMF and the World Bank to help these countries move from a state-controlled and collectivist economy to an open and efficient market economy.

For Poland and Hungary, which have been receiving aid since July 1989, initial results have been encouraging. Although we should not make numbers more significant than they are, since July 1988 roughly 5–6 billion ECU’s have left the Community for Poland and Hungary. However, we should not underestimate the political, social, economic and technical diffi-
cultures. In this connection, I would like to underline the need for a well-timed reform of COMECON, avoiding the risk of a sudden or total disruption of flows of trade between COMECON countries during the liberalization process, notably between the USSR and the countries of Central and Eastern Europe.

I would prefer that the COMECON member countries reach an agreement to maintain a minimum of exchange between the USSR and the other COMECON countries. It is a question of politics, but it is also a technical question, because it's impossible for Hungary, Poland or Czechoslovakia to sell industrial products in abundance to the Western countries. This is the present situation.

What will be the future architecture of a greater Europe? Haste must be resisted. A diversified network of relations should be created between the Community and other European countries. These relations should evolve, but they should also be tailored to the concrete possibilities of each country or group of countries. With EFTA countries—countries with the same level of development as the countries of EEC—we foresee the creation of a "European economic space." That means the extension of the large market without frontiers to include the six member countries of EFTA.

With the countries of Central and Eastern Europe, after the classical trade and cooperation agreements, a new generation of agreements will be decided—I hope by the next European Council at the end of the week. This new generation of agreements will be adaptable to each situation and also to the wish of each country. For example, I received a letter from the Prime Minister of Poland, Mr. Mazowiecki, in which he made very good suggestions for the content of the new association agreement. The new association agreement has many dimensions: a dimension of free trade, progressively; a dimension of cooperation, also regarding cultural matters and financial aid from the Community; and a political dimension as well. Regular meetings will take place at the level of Ministers of Foreign Affairs between the Community and each Eastern European country. And we cannot forget relations with those countries I call the orphans—Cyprus and Malta, with whom we are bound by agreements. The same applies to Turkey.

Thus, our ambition is to reinforce the Community's position as an anchor so as to facilitate the creation of a network for trade and cooperation, a vast zone of free trade, and a vast zone of cultural and political exchange. In this light let me mention the important role which the Council of Europe is playing and will continue to play in enabling the countries of Central and Eastern Europe to learn the workings of democracy and to cooperate in the cultural sphere. And we must not forget the human rights dimension.

**COMMUNITY COMMITMENTS IN A CHANGING WORLD**

The concentration of the effort of the Community on the problem of the changing Europe is a fact and a necessity. But we do not forget our other responsibilities.

When it comes to developing a new security system, promoting world economic growth on the basis of stability and the fair distribution of the fruit of expansion, and dispensing aid in the world treatment of the major problems faced by humanity (e.g., the environment and disease), the European Community intends to cooperate and share responsibility with the United States and Canada on the one hand, and Japan on the other. And once development permits this, the USSR should also be encouraged to shoulder responsibilities.

On security, the Atlantic Alliance remains the essential framework. What has to be done is to adapt its objective and means to the new pattern of East-West relations. The forward movement towards a political Europe will no doubt mean that a European pillar of the Alliance will need to be designed. This will also contribute to a solution of the German problem. As to the CSCE, it will be the framework in which to monitor and then enshrine progress which is accomplished on the road to disarmament. But I do not agree with the idea that it should turn itself into a pan-European security system leading to the dissolution of the Atlantic Alliance. The CSCE can also play a useful role as an arbiter in nationalistic conflict in Europe or as a guarantor of human rights. If this were so, should one not associate Japan with it, given its power and its worldwide responsibilities?

We must also work towards the improvement of the state of the world economy. This means that relations
between the three major entities (North America, Japan and Europe) have to be clarified. We can only overcome the sterility of trade disputes and mutual suspicions if we establish comprehensive bilateral partnerships between ourselves and ensure that the multilateral Uruguay Round negotiations produce a more effective institution to monitor trade, arbitrate disputes, and guard against unilateralism. Besides, we cannot afford to be too self-satisfied about our economic performances, given the limits of G-7 concertation, and given the persistence of underdevelopment and overindebtedness, which are both an injustice and a threat, as social and political instability fans the flames of fundamentalism. Thus, the forthcoming Summit of Industrialized Countries, in Houston, should engage in a more structural and political analysis of the weaknesses and strengths of the world economy.

Other problems with a world dimension—the environment, the fight against drugs, treatment of the scourge of disease—require worldwide cooperation. On the environment, the United Nations should be reinforced as a framework for concerted action, on the basis of confirmed diagnosis.

In conclusion, I recall that this year we are celebrating the 40th anniversary of the declaration by Robert Schuman, which led to the creation of the first European Community institution, the European Coal and Steel Community. All the principles which have served as the basis for the construction of Europe were laid out at that time. The treaties that followed defined the institutional structures which were to give effectiveness to the Community’s decision-taking and action.

But let us remember that Schuman’s goal was inspired by the idea of forging a future together, not only in Europe, but across the world as well. That idea is more relevant than ever today as a reminder to the European Community of its responsibilities and of the ultimate goals of its endeavors.

★ Jacques Delors is President of the Commission of the European Communities and former French Minister for the Economy, Finance and Budget.
SOMEbody coming from Poland now, and having to speak about the future of Europe, could be considered as a representative of a very provincial point of view. But I do not think so. I think that the future of Europe and the future of the world now depend largely on the situation in Central and Eastern Europe.

When yesterday morning I asked Count Lambsdorff about some dangers that I see on the political horizon concerning Russia and Germany, he rightly said to me, “It is a very Polish question.” I would add that these two Polish headaches—the German one and the Russian one—could become yours. And I would add a third one. Central Europe is coming back to Europe and to the free world. I think that is a very happy situation for everybody, but Central Europe is coming back with some very peculiar problems. Foremost among them is, perhaps, not so much the economic situation, but the nationalities question. The national heritage of Central Europe could become the third headache of the world.

My first message is that the answer to these three problems is Europe and European integration. To be clear, from my Polish point of view, German unification is happy news and we consider it as one of the most optimistic events in recent history. The Berlin Wall was not only a shame of the world but it was also a sign of the division of Europe, in which Poland, Hungary, Czechoslovakia and other countries had to belong to the Soviet Empire. The philosophy of action of European integration after Yalta and the division of Europe was that Eastern and Central Europe were to be left out of the European horizon. This European integration sought to preserve the peace of Europe and the material prosperity of Western Europe. One should ask if this European peace and material prosperity can now be preserved only in this very small Europe of the Twelve.

The return to the market economy is a tremendous challenge for Eastern and Central Europe. In this effort to rebuild the market economy and free enterprise in our countries we are helped by the Western world, but we cannot see a real commitment to this wider
philosophy of action for European integration. We sometimes have the feeling that the European Common Market is a moving train whose doors are already closing and that we are considered as an obstacle—or a possible obstacle—to European economic and political integration.

Association with the European Community is a step in the right direction. We have the feeling that with association, countries like Poland, Hungary and Czechoslovakia can really be involved in European integration. But may I ask a question: Why is the problem of membership in the European Community not treated now in political terms? It is not only a question of money, investment or economic integration, but it is also a question of the political future of Europe and the world.

Yes, the question of money is obvious. In our return to the market economy we need assistance. First, we need investment—not only private investment, but also public investment. In our countries investment is risky, and under these circumstances the state institutions should be involved. Second, we need European investment. It would be bad for Poland and Germany if investment in Poland is majority German. (In the joint ventures field more than 40 percent of investments are German.) It would be better to see British, Italian, and French capital invested in Eastern and Central Europe, and, better yet, to see European capital—European economic institutions—inolved in this process. And finally, we think that the question of debt is not just a short-term problem, but an economic issue that strikes at the hopes of our people. We should give to our citizens not only the hope that reform efforts will go well in the short term, but, above all, the hope that we are able to build a new and sane economy. With this charge of debt, that is impossible.

But dealing with the new realities of Eastern and Central Europe is also a question of security, stability and political integration. We are aware of the fact that we should see our place in a different and new European political architecture. We think that CSCE can play a role, but I agree with Mr. Delors that it would be a mistake to view this conference as a solution to the security problem. Neither should one forget that this CSCE formula introduces the United States into the European architecture. And I would say, frankly and openly, that we should be interested in the presence of the United States in the European architecture. It would be a paradox if, after the events of 1989, the new political architecture would be a “common house” with a place for the Soviet Union but no place for the United States. So this formula brings us an important message—the possibility and the necessity of the U.S. presence in Europe.

The Council of Europe is cited as one of the new structures for European security. Everybody has heard about the Council of Europe, but what is its purpose? Can the Council of Europe be the real institution of European integration? Why are countries like Czechoslovakia, Hungary and Poland still waiting for a clear answer concerning their membership in the Council of Europe? I think it is proof that the Western world, although having great sympathy for changes taking place in the former Eastern bloc, until now is very slow in responding to this challenge.

The question of this new political architecture should be considered not only in the dimension of Europe, but also in the context of the political heritage of the cold war. And the political heritage of the cold war is, first of all, the East-West division. Can we break free of this East-West division? Can we find another form of alliance? Can we find another political structure? In some talks concerning the future of Europe we find the idea being advanced that the Berlin Wall can now be put on the Oder-Neisse border. The situation would stay the same in political terms, only the geographical borders would be changed.

The question is how to think in other terms. In a recent American newspaper I found a political proposal for the future presenting Europe still divided into spheres of influence. My fellow Poles would be amazed to see Poland in the Russian zone of influence into the 21st century. That is the result of very old political thinking—being unable to consume the change of 1989.

How do we break free of this thinking? I would propose that my country re-orient its foreign policy, its economic policy, as well as its cultural, education and political policy, to the North. We have common interests around the Baltic Sea. I can imagine us organizing an alliance of Baltic countries, in which the Baltic
Republics of the Soviet Union will have their place, and Germany will also have a place. Czechoslovakia could play a role as a bridge between this new Northern alliance and the Southern alliance, the Danubian-Adriatic Alliance of five countries. In this sense, Europe's future political architecture and future economic ties can be considered in different terms—but on one condition, that the ultimate purpose of this would be eventual integration into the European Community.

I am aware of the fact that European integration—this integration of the Twelve—is in the interest of the greater Europe, and in the interest of European security. The question is how to integrate the greater Europe. I think the answer can be found in two points. First, some sort of agenda for action, some sort of calendar should be set for membership of our countries—Eastern and Central European countries—in the European Community. And second, during the period in which we will wait for normal membership in the European Community, our countries—Eastern and Central European countries—should organize structures of cooperation which bring membership in the European Community closer to us.

Finally, it should be noted that Poland, Hungary and Czechoslovakia, having a common fate, are oriented toward not only the West, but also toward the rich countries because we are not interested in building alliances with poor neighbors. The point is that we should have an idea of our hoped-for future and, in very pragmatic terms, an agenda for change.

In concluding, I would like to say that the question for our countries is how to invest, in a pragmatic way, all the sympathy that we have from the world and how to transform it into a real investment of money and movement of goods and people. For the Western world, the question is how to keep the momentum—political and economic—going and how to take the historical responsibility for the future of the world.

★ Bronisław Geremek is Chairman of the Foreign Affairs Committee and Leader of the Solidarity Parliamentary Group in the Polish Sejm.
FOR A PERIOD OF 40 YEARS EUROPE found itself in a controlled but constant crisis. Germany and all of Europe were divided. Heavily armed military forces stood face to face at the dividing line between East and West. The right of the peoples of Eastern and Southeastern Europe to self-determination was disregarded. Democratic rights, social pluralism, individual freedoms and human rights were sacrificed to the dictatorships of Parties that laid claim to absolute truth and undivided power.

There was no prospect of resolving this conflict as long as the Soviet Union remained determined to enforce its hegemonic claims by almost every means available to it, and as long as it continued to satisfy its security needs at the expense of its neighbors.

Due to the firmness of the Western Alliance and the determination shown by the United States and Canada to shoulder their responsibility within the Alliance, Western Europe was able to preserve freedom, democracy and its right to self-determination.

Divided Germany stood at the center of this conflict. But this is not new. Germany's relationship with its neighbors has always been strongly influenced by security concerns. Experience with Bismarck's Germany and the horrible consequences of the ruthless imperialism of the Third Reich reinforced these fears in our neighbors. After the Second World War the problem of integrating Germany into a European security and peace order was pushed into the background by the East-West conflict, and by the division of Germany and the integration of its two parts into different security alliances. As such, the Germans no longer posed a security risk. Seeing to it that this remains so is a key factor in the policies currently being pursued by all of the countries in Europe. It is only on this basis that the Germans will be able to achieve national unity.

The Western powers gave the Federal Republic of Germany the opportunity to take part in building up the integrated Western system. The Federal Republic took advantage of this opportunity and today is firmly anchored in the Western community of democratic
nations, the Atlantic Alliance and the European Community. The fact that we are firmly integrated in these contexts is in keeping with both our convictions and our interests. It has brought the Federal Republic of Germany freedom, self-determination and economic recovery. Beyond this, it has provided the country an opportunity to promote its political and economic interests as an equal partner on a solid and internationally recognized basis.

This new form of integration, aimed at mutual confidence, mutual dependency and cooperation, guarantees those involved maximum protection against egoistic and nationalist trends, such as dominated political thinking in the 19th century. The principles of the successfully integrated Western system can serve as a basis for restructuring an all-European peace order. The unification of Germany will be achieved in this framework.

Integration in the European Community and close cooperation with our European Community partners is a central element of our foreign policy. A very special role attaches in this context to Franco-German friendship. Without its membership in the European Community, the Federal Republic of Germany’s economic and political development would not have been possible.

With the entry into force of the Single European Act in 1987, the European Community acquired a new and dynamic dimension. The European Community countries bindingly agreed to complete freedom of movement for goods, services, capital and people within the Community by the end of 1992. In economic terms this means considerable new impetus towards integration and the activation of growth reserves for all of Europe and the global economy.

It can already be said that the process of economic and political integration in the European Community is irreversible. For any of the member states, dropping out of the integration process or failure of the Community to integrate would be connected with political and economic losses infinitely greater than the burdens that the integration process brings with it.

We want to work actively to support the continued development of the European Community towards a European Union. This will mean a progressive transfer of national sovereignty to a democratic European government. Based on the experience we Germans have had with our own governments, it will be easier for us to give up national sovereignty than for most other Europeans. Moving ahead in the process of integration, including the transfer of sovereign national rights, is in the interest of our European partners, and they may know this. For our partners in the European Community, the advantage of integration into structures of this kind is that it will make it increasingly difficult and, in the long run, impossible for individual countries to steer unilateral courses. Those who have security-related reservations about others in Europe will necessarily support the cause of European union. A united Germany integrated in a European union will no longer pose security risks.

For our partners, Germany’s integration in Europe means their being tied to Germany. This may not always be a comfortable proposition. In comparison with all the other solutions that have been attempted in the course of history, this is the only one that provides reliable and long-term solutions to the security problems Germany can pose. But Germany’s integration in a European structure will only succeed to the extent that the other partners are willing to integrate themselves into the European Community.

For decades, the West has clung to the conviction that one day human rights, democracy, the right to self-determination and freedom would prevail in Eastern Europe. The Germans have always associated the hope of achieving the unity of Germany with this conviction. The preamble to our constitution, which we refer to in our country as the “Basic Law,” codifies this as a mandate for the Germans, combining it with the responsibility to serve the cause of peace in the world as an equal member in a united Europe. Both these factors, national unity and the preservation of peace in Europe, are constitutional mandates.

EUROPEAN SECURITY
The restructuring of Eastern and Southeastern Europe will only succeed if the security question is resolved to the satisfaction of all the countries concerned. Germany is at the center of this complex problem, due to its geographic situation, its size and the membership
of its two parts in different alliance systems. It is important that no unilateral advantages for one of the two sides derive from the changes taking place in Eastern and Southeastern Europe. We do not seek security in a confrontational context. The aim of German unification must be to contribute towards stability in Europe. What is needed is to make use of the ongoing process of change to move from confrontation towards cooperation, in order to transform the alliances into elements of a new and cooperative all-European security system.

The CSCE process is the framework in which this problem will have to be solved. The momentum this process has taken on since the Stockholm agreement on initial confidence-building measures, since the INF Treaty eliminating intermediate-range nuclear missiles and, in particular, since the conclusion of the Vienna CSCE follow-up conference at the beginning of 1989, must be made use of and maintained.

On the basis of the resolutions approved with regard to human rights and civil rights, the Vienna CSCE Conference made a major contribution towards the peaceful revolution that took place in Eastern Europe. The conference also initiated the negotiations on conventional disarmament in Europe. The progress that has been made thus far in this conference justifies the hope that it will be possible to conclude major disarmament agreements before the end of this year, agreements that will bring us closer to the objective of guaranteeing and verifying a non-capability for surprise attack and large-scale offensive action. This objective cannot yet be attained in the framework of the mandate for the first Vienna round of talks. Thus, at the conclusion of this round of talks, a mandate will have to be formulated for a new Vienna round that will lead to new and radical disarmament measures. The CSCE summit conference scheduled to take place before the end of this year will need to issue this mandate and, in addition, decide on a framework for the institutionalization of the CSCE process. There are already a large number of interests and tasks the two alliance systems could pursue jointly, such as monitoring the disarmament process, confidence building, resolving regional conflicts within the alliances, and developments on the outer peripheries of the two alliance systems. To the extent that it proves possible to reduce the military potentials of the two alliance systems and, at the same time, to expand mutual confidence, it will be possible to create the prerequisites needed to place joint security in Europe on a new treaty-related and institutional basis extending beyond the existing alliances and, possibly, replacing them.

NATO—in connection with a strengthening of its political component—might serve as a basis for a new security system. The inclusion of North America in any European security system will continue to be indispensable. The CSCE summit will need to pave the way for establishing institutional structures in the CSCE context and for developing a contractual framework for an all-European peace and security system. As long as this basis does not exist, NATO will continue to be indispensable and Germany will have to remain integrated in NATO.

In the interest of stability in Europe, we want German unity, not as a neutral state, but rather as a member of the European Community, and as a member of the Western Alliance. We are willing to take justified security interests into account. However, we attribute importance to our doing this as an equal partner.

The integration of Germany in the Western Alliance and its involvement in the continuing process of European Community integration is an important factor for stability in Central Europe. We understand the concerns of the Soviet Union that the inclusion of a united Germany in the integrated Western system must not lead to an expansion of Western Alliance forces beyond present-day borders. As such, we feel that it is right that neither NATO troops nor German troops assigned to NATO be stationed on what is currently GDR territory. It will be necessary to conclude agreements with the Soviet Union regarding the continued presence of Soviet troops on GDR territory, until such time as the prerequisites to be established in the context of the disarmament process for the withdrawal of Soviet troops have been satisfied.

Never before in the history of this century have the prospects for a durable peace order in Europe been as good as they are now. The progress being made in the
disarmament talks justifies the hope that it will be possible to reduce military forces in Europe in the foreseeable future and to structure them in such a way that it will no longer be possible to employ them as a means of attaining political ends.

In the two alliance systems there is a growing awareness that conflicting interests are being replaced to an increasing extent by converging interests. This process is still a long way from being completed and it is not without risks. The risk factors include potential developments in the Soviet Union. In addition, a united Germany in Central Europe will reawaken fears rooted in the past. In order to do justice to both problems, there will be a need for a strong commitment on the part of the United States and Canada in Europe. This will include the presence of an appropriately large troop contingent in Europe.

Freedom, democracy and human rights achieved a historical victory in Europe last year. We are all responsible for seeing to it that this new situation is guaranteed in the long-term, both in the interest of Europe and in the interest of America.

★ Otto Graf Lambsdorff is Chairman of the Free Democratic Party and former West German Economics Minister.
I have been asked to make a North American response to the discussion of implications of change in Europe. It seems to me that three issues are likely to be of increasing importance to the United States and Canada. The first issue pertains to the North American-European security connection in the setting of emerging and increasing European unity, but also in the setting of the inevitably declining U.S. security presence on the European continent. The second issue pertains to the longer term dilemmas of Central European post-Communist reconstruction and renewal, and particularly as it pertains to the question whether this reconstruction is taking East-Central Europe toward Strasbourg or towards Sarajevo. And the third involves the intensifying crisis within the Soviet Union—which is beginning to assume a dynamic character. Each of these issues poses serious dilemmas and will require serious thought and response.

U.S.-EUROPEAN SECURITY PARTNERSHIP

I start with a premise that the security connection between the United States and Europe remains in our mutual interest. I believe that most Americans wish to be part of the European security arrangement, and that most Europeans—West and East—similarly so desire.

But I, for one, believe that we cannot assume the durability of the post German-unification security arrangements. We can more or less anticipate what they will be. They will involve, in one fashion or another, a united Germany remaining a member of NATO—with some special security arrangements for continued Soviet presence in what is today called East Germany. But I wonder how long that arrangement can endure.

Proposals are already on the table pertaining to the reduction of Eastern and Western forces, scaling down the U.S. presence to 195,000 troops in the central region. But this hardly is the end of the debate. Significant spokesmen on the defense issue in the United States are already postulating the desirability—as well as probably the inevitability—of a further drastic reduction. Senator Nunn, for example, has suggested a
reduction down to 75,000. And I strongly feel that he is, in fact, correctly anticipating the thrust of events. Beyond that there are the dynamic uncertainties connected with the CFE process, which will, in all probability, lead to agreements pertaining to reduction of forces. There is the process of political change in Eastern Europe, which will terminate, before too long, any Soviet presence in such countries as Hungary and Czechoslovakia, and inevitably also Poland. There is the possibility of the Soviet Union itself choosing to disengage, and inviting the West to disengage from Central Europe. And, in any case, one has to anticipate fundamental discontinuities in the future in the outlook of the Germans themselves on the security problem.

Let me say that I consider the Germans to be good allies and true Europeans. When I say this, I do not wish to signal some German trend towards neutralism. But I do think that we have to anticipate major discontinuities in the course of this decade, just as we have experienced fundamental discontinuities in the last half decade.

Surely, one cannot expect a reunified Germany—a good member of the European Community and solid member of NATO—to be ready to remain indefinitely the only occupied country in the heart of Europe.

At some point before too long a reunified Germany, either because of a precipitating Soviet initiative or on its own, will say to its allies that it wishes to remain a member of NATO, that it has proven itself to be a good participant in the European process and that, therefore, the time has come—let us say 50 years after the end of World War II—for Germany to have a military status not different from that of Norway or France or Spain. That is to say, without foreign troops on its soil.

In other words, we have to start thinking of new arrangements for the more distant future—but not so distant any more—regarding the U.S.-European security connection. It is unlikely to remain based indefinitely on the notion of large U.S. combat force deployments on European soil. We will have to think of arrangements for prepositioning of equipment, for, perhaps, some air and naval bases and, in all probability, for joint maneuvers involving the rapid deployment of American combat formations to Europe for joint maneuvers with NATO forces. We have to think of an arrangement which is quite different from the one that exists today, but one which, nonetheless, continues to tie the United States to Europe’s security.

I happen to believe that the CSCE will become a European security system only when there is no insecurity. But if there is insecurity, much more than the CSCE will be needed. The chances are that insecurity will linger, especially given the third great uncertainty of which I will speak in a minute, namely, internal Soviet developments. And thus, it is not too early for us to start reflecting on the need for fundamental changes in the long-run character of the U.S.-European security connection.

**THE FUTURE OF EAST-CENTRAL EUROPE**

I sense that there is some inclination in the West to underestimate the difficulties of that transition taking place in Eastern and Central Europe. That transition is going to be prolonged; it will last years; it is going to be difficult; and it is going to be disruptive. East Germany is a special case, which will be handled by the Germans. And without minimizing the difficulties of the integration of East Germany into Germany, it is likely to be worked out given the resources and the commitment of the Germans. But the rest of East-Central Europe will be much more difficult.

We have no precedents for the successful transition from a communist system to a democratic free-market system. The road is a new one. Poland is right now the spearhead and pioneer. It is making a massive and bold reform effort, and the others are watching and waiting. Neither Hungary nor Czechoslovakia is moving as rapidly. And the countries further south—Romania, Bulgaria, and Yugoslavia—are experiencing increasing disruptions, and are not yet even in the stage of reconstruction. There is the danger that the road for some of them will not be to Strasbourg, but to Sarajevo...
eration within that region. The West Europeans have
had 40 years of experience in increasingly institutionalized cooperation. The East Europeans have had none. And the Communist experience has intensified rather than diluted their nationalism. This is why it is important that cooperation in East Europe take on tangible institutionalized forms.

I would like to see all of us promote, for example, East European cooperation on the ecological issue, for it is a fruitful area for institutionalized cooperation between the East European countries. There is the need for German-Polish reconciliation to match the Franco-German reconciliation. But that, too, needs to be institutionalized and made tangible. The Coal and Steel Community that provided the foundation for Franco-German reconciliation could be matched in some new fashion through German-Polish cooperation that is concrete and focused on tangible objectives and creates, in a sense, a framework of Franco-German and German-Polish reconciliation in the heart of Europe.

These are major strategic tasks for us regarding which we in the Trilateral countries need to think a great deal and to remain and become increasingly engaged.

DEEPENING CRISIS IN THE SOVIET UNION

Much has been said on this subject and much has been written. I do not have much to add, but let me just register some general propositions.

In my view, this deepening crisis is not a transitional crisis; it is a historic crisis. A transitional crisis, by way of example, was the American experience with the New Deal—that was a transitional crisis of the American system. The crisis of the Soviet Union is a historic crisis like the crisis of the Ottoman Empire, for example. It is a crisis of stagnation, of attrition, of demoralization, of fragmentation, and of intensified potential for violence.

As I look to the future, I am very doubtful that this crisis will soon be terminated or that in fact there is a solution for the crisis within the framework of the existing Soviet Union. More likely, in my judgement, is either a (1) dramatic turn, at some point, towards some attempt at a reassertion of empire—based not on an ideology, for it is gone, but on the single basis for such an empire: Great Russian nationalism, or (2) a process of continued fragmentation, particularly through the dynamic of national conflict, of which Lithuania is the litmus test, or (3) in part as a combination of the other two, and I have only in recent weeks started feeling this way, there looms on the horizon the possibility of a major central upheaval of a Romanian type, assuming a strongly anti-Communist character.

For what strikes me from my contacts with the Soviets, particularly with the Russians, is the polarization in the public mood on political issues. This extremely sharp polarization is increasingly defined in ideological hostility, particularly in a growing hatred within large segments of Russian society for the communist experience and for the very word "communism." And that has the makings for considerable instability.

All of that to me means that we should, at the very least, try to begin to spell out some tangibly beneficial consequences for the Soviet Union if it transforms itself into some form of a Commonwealth and undertakes political and economic reforms that bring it closer to Europe. I happen to believe that a massive aid program for the Soviet Union at this stage is premature. But it is not premature to start charting an attractive vision of the future, so that those who wish to transform the Soviet Union into something more palatable would have a viable option, even in the context of this deepening crisis.

Let me conclude by stating my three conclusions very succinctly. With regard to the U.S.-European security relationship in the context of a changing Europe, there will be the need for the definition of new arrangements defined less in terms of numbers of U.S. combat forces stationed in Europe. With regard to the second issue, it will become increasingly important for us to be aware of the fork in the road which could take some of the East European states to Sarajevo and only some to Strasbourg. And we should strive to take the entire region towards Strasbourg. With regard to the third issue, I am convinced that in the years to come domestic Soviet problems will increasingly become foreign policy dilemmas for us all. There is going to be a closer junction between the dynamics of the very critical and difficult internal change in the Soviet Union and Western policy towards the Soviet Union.

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First of all, let me say what Europe is for us Japanese. At the end of the last century, Japan was emerging from a feudal state and was busy modernizing itself, pattern-
ing itself after Europe, which was—and still is—the center of modern civilization. We adopted European systems and assimilated European cultures, which we can now say are part of our patrimony.

In those days, we were facing a Tsarist-Russian threat, which was closing in on the Far-East. At that time, Great Britain had also the same preoccupation about Tsarist Russia. Out of this common interest the Anglo-Japanese Alliance was born. It was because of that alliance that Japan was able to weather the Russo-Japanese War. After that, Japan’s way of thinking followed that of the great powers of the day—that was to believe that a great power, which has the necessity to survive and feed its population, needed colonies or zones of influence. That led Japan to its adventure toward the Asian continent, where its interests clashed with those of Great Britain and the alliance was broken.

After the Russo-Japanese War in 1905 we saw the fall of the Tsarist-Russian Empire in 1917. Perhaps it is a kind of analogy to what we see today. In those days, when the Tsarist threat disappeared the alliance with Europe was dismembered. And after that the Japanese psyche suffered very much from a kind of isolation. And we tried to find ways where we could be accepted in the world of the mid-20th century. In the world of today, when perestroika means, in the perception of the American public, the disappearance of a real threat, it gives rise to the feeling of another threat, whether justifiable or not. And that has given rise to some hostile sentiment very well expressed in the American media and which also has its reaction in Japanese minds.

I do not think we can compare today’s situation with that of the middle of this century, but one can say that whenever the Japanese feel there is some resentment in American society towards Japan, there is certainly a feeling of insecurity in Japan.
This insecurity may lead to a different way of thinking to that which emerged after the Korean War, when the United States fully supported the Japanese position in world affairs and tried to develop Japan as a bulwark against the rise of Communism in continental Asia. Personally, I think we are going to strengthen our relation with the United States to keep the alliance stronger, as the “Structural Impediments Initiative” talks demonstrate. Those talks express Japan’s maturity now in coming to terms with such challenges without feeling humiliated.

From that point of view, we are certainly strengthening our relations with the United States. But at the same time there exists a feeling that we have to diversify our relationships. And there, of course, the position of Europe becomes more apparent in our external relations.

We support the European integration process because we need a strong and dynamic Europe for our own security and prosperity. And those are not empty words. When I was preparing for the Williamsburg Summit back in 1984, as one of the Sherpas, there was the question of Japanese support for the 1979 double-track decision on deployment of intermediate-range missiles in Europe. The question was raised whether Japan could associate itself with such a declaration. My immediate reaction was to say that based on the political situation in Japan at that time, it would be very difficult for a prime minister to associate himself with such a declaration—and not for constitutional reasons, but because it would mean deviation from Japan’s traditional policy that it would not be part of a collective security system. That was the policy of Japan, that we could not join a collective security system. But I told that meeting that since the Soviet Union’s military build-up was increasing in the Asian region, Japanese public opinion was shifting very delicately towards more awareness of security problems. And I said that I did not believe that the security of Europe could be differentiated from the security of East Asia. The SS-20 missiles were mobile and their reduction in Europe could have meant an additional security threat to the East Asian Theater. So the Nakasone Government of that time reacted in a positive way and we were able to join that declaration. That was the first time in the post-war years that Japan associated itself with that kind of declaration. In that sense, we saw the seeds of the sentiment of our common fate with Europe.

Now with the progress of the Single Market, there are those voices which tend to make Japanese public opinion believe that the Common Market is going to yield to the temptation of protectionism—and we have seen certain actions and in the media some views which tend to give some credibility to those interpretations.

Japan has to stand very firmly on its common fate with Europe, especially since we are all now facing the challenge of the Uruguay Round and the task of incorporating Eastern Europe into the free market system. If we are a poor example of a free market system and a valid, fair and open society, how is that system going to be workable in Eastern Europe? I think we are on the threshold of reaffirming the necessity of the multilateral GATT system.

Despite some expression of opinions which would make people think that Europe is yielding to protectionist temptations, we should realize that certain voices are politically necessary or are necessary for individual enterprises that are not performing very well—which need an alibi to justify their position. We should not be carried away in our reaction to these expressions. And we should do our own homework—as we did in the case of SII, and further with Europe, if it is necessary—to strengthen these relations of mutual interdependence, which is so necessary if we are going to meet the big tasks which are awaiting us: the task of helping the developing world, and the task of meeting the challenge of the environment.

There are lots of issues of a global nature that require the close cooperation of the Trilateral partners. And you can be sure that Japan will share its burden in addressing these challenges.

When we come to the actual problem of Eastern Europe, it is, as I already explained, also very important to the Japanese. First of all, it is a problem of enlarging the part of the world where we have the same scale of values of freedom and democracy and free market economy. And second, the stability of Eastern Europe is vital also for the stability of the Eastern part of the Euro-Asian continent.

So, we have already decided to take part. We have
taken the decision to participate in the new development bank for Eastern Europe—this is public aid. But I think it is also important for the future to have private investment coming into the area, because only private investment will be able to really create the basis for a sound market economy. On that score, Japan, of course, is not so familiar. It has the political will and certainly the means to cooperate in that direction. But I think that contributions in this area should be done in close cooperation with private business in the United States and Europe, especially. And if Japan is going to play a role there, it is not going to play the first violin, but the second violin—if not the viola.

I think also that the contributions we make to Eastern Europe are concomitant to our global interests as well. If we look at the world balance of payments structure, we are a surplus country. Germany is certainly a big surplus country, and Europe in total is also a surplus country, whereas the United States is a deficit country. The new needs that can be created in economic terms in Eastern Europe will certainly serve to alleviate the problem of the American deficit. And that would ease, in an indirect way, the tension we are facing. We are not a European country. And we are not claiming to be accepted in the European “common house.” But we certainly wish to be a very good neighbor to that house.

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Discussion: Implications of Change in Europe

What follows is a sampling of discussion on the implications of change in Europe:

European Community and Eastern Europe

A British member “found it remarkable that the European Community’s response so far has been an almost obsessive concern to accelerate the inward processes of integration within the European Community itself. As far as Eastern Europe is concerned, I have no doubt at all that, although temporary aid has been given to help deal with the enormous and immediate economic problems, a political perspective is badly needed. In my view, we should be declaring now that it is our wish and intention to bring the countries of Eastern Europe who wish to join the European Community into full membership. What we should be negotiating about next is not a further association agreement, but the whole question of full membership, with appropriately long transitional periods, and with certain necessary derogations from the strict rulings of the Rome Treaty and all that has followed from it. That would be a singular contribution that we could make to the political prospect, as well as to the economic recovery of Eastern Europe and the sustaining of democracy in those countries.”

A U.S. member had a different view: “On the question of broadening or deepening the European Community, my concern is that a premature effort to broaden membership by adding the Eastern Europeans could weaken the economic cohesion of the Community, which I think is critical to the economic future of Europe.

The Community is the center of the common European home, and if making a political gesture of broadening the Community prematurely weakens its ability to serve that role as the center of the common European house, by weakening it economically, I think that would be a short-term gesture with a long-term adverse economic effect.”

A French member added: “We should see that when some people propose to enlarge very quickly the Community, it is because they do not accept a real integrated Community.”

An Irish member was “a little unhappy about the way the discussion on membership for Eastern European countries went. It seems to me that it was too polarized between agreeing to membership now or postponing it indefinitely, and too undifferentiated between countries like Poland, Hungary and Czechoslovakia, and others which would be much further down the line.

“Recognizing the vital importance of reinforcement of the Community before enlargement, and I am absolutely clear that there should be no attempt to water it down by using enlargement for that purpose, there is a need to start developing gradually a strategy which would open the prospect of membership over a period of time to countries like Poland, Hungary and Czechoslovakia as they develop market economies, even at the expense of having to make a somewhat embarrassing distinction between them and other countries which would not have a prospect of membership within anything like the same time scale. If we do not do that, we would be unnecessarily and unwisely creating unhappiness in countries which we should be trying to help and give encouragement to.”

A Canadian member offered a similar perspective: “To many of us the Community looks to be the platform, and quite probably the only platform, on which the scaffolding for a new federated European Union can be built. What is making the Community unique in history is the voluntary transfer of sovereignty to it—deliberate, careful. For the Community to remain as the platform of stability, the architecture has to be very clearly constructed over time. But would not the stability of Europe be reinforced by the Community leaders articulating a vision of a federated political Europe which includes the countries of Eastern Europe—to which they can aspire, and which can inspire the severe domestic efforts which they have to go through at this time?”

A German member spoke about the West’s obligation to the East: “I think we are in a grave danger of the crime of silence and inaction because we talk here in lots of old terminologies which helped Europe tremendously. But we should see at the same time the continuous suffering of people in the East, where we are really actually not doing anything. I think we should focus on the three or four or five elementary human aspects which we have to solve—jointly—by tomorrow, and, perhaps, after 1992 that may give us a new communal spirit.”
DEFENSE AND SECURITY QUESTIONS

A German member said: "We should not drop our guards nor slacken our vigilance, but neither should we become prisoners of the past. The fact is there is not today any palpable threat; there is no clear and present danger, as we have had for many decades....We can now move from what was essentially a pre-war security arrangement to a peacetime security arrangement—which means we should not look for new threats; we should not talk ourselves into the rather absurd assumption that a Russian Empire in full collapse poses greater dangers to us than Soviet power at its zenith. And we should not aim at job-enrichment for NATO bureaucrats....

"There can be a much lower level of exercises. We can envisage slimmed-down command structures. And we have to reconsider doctrines like flexible response, forward defense, and first use."

A U.S. member had a different perspective: "The problem is that the threat is changed, and the threat now—be it a major civil war, dissolution or collapse of the Soviet empire, with ethnic problems, irredentism or problems over national borders—will not be less, it will be greater. The only difference is that we have an alliance, NATO, which is not equipped to deal with that type of threat, and which has never really understood or related to that kind of threat.... We really ought to be talking about qualitative differences in the nature of our security links and how we involve the East Europeans in that process. And NATO ought to remain at the center of evolving security relations. CSCE cannot do the job; it does not have the weight; and it does not have the legitimacy or the power."

A Japanese member was worried about the Soviet Union: "If the Soviet Union is headed for collapse, countries like Japan may be able to live rather comfortably with a weakened Soviet military threat. At the same time, other countries like China and India may try to fill in the gap, thus causing new tensions in the regions. On the other hand, if the Soviet Union should try to consolidate itself, exerting central control over distant Republics, once again it can become a bully-hegemon. In either case, the Soviet Union will present trouble in security areas for us. Therefore, we should encourage the Soviet Union to somehow muddle through between the two extremes."

There was considerable discussion about continued U.S. presence in Europe. This French member had strong views: "Many institutions have been mentioned—the Western European Union, the CSCE, the Community, and so on—but putting the question that way is really putting the cart before the horse. What we want is the maintenance of deterrence in Europe. Deterrence is the only acceptable policy from the military, political and moral point of view. And the rock bottom basis of deterrence in Europe is the presence of American forces with their nuclear capacity. Now this does not mean a threat to anybody; it is simply an insurance against the unknown...."

"And I would hope that France would see, from now on, that the reasons for which she took the decisions she took in 1966 no longer apply, and that in the revamping of the organization of the security of Europe she could well accept the prepositioning of equipment for American forces and for providing the facility for receiving these forces."

A British member had these comments to offer: "If the price of Soviet troops going out of East Germany fairly soon is the United States not having, certainly, nuclear weapons in a united Germany, that seems to me a price that we should pay. But that does not mean that Germany should then be non-nuclear, and it therefore raises the whole question of the price of retaining nuclear weapons in Germany and also France coming up and deploying nuclear weapons in Germany. You get into the whole question of what are we going to do about defense in terms of the development of Europe. I agree we should not get rid of NATO in any sense. Keep the treaties we have. But what of the Brussels Treaty—the WEU? I think there is potential there."

This German member spoke about the political context in Germany: "We (Social Democrats) are certainly not divided about the necessity of NATO as it is now. The question is, what kind of security system will we have in the future, and what kind of role NATO will play there. I think this is an issue for all of us, not just for the Social Democratic Party.... I think it should be clear for all of us that there is no dispute, at least not between most people of the coalition..."
Parties and the Social Democrats, about the necessity to go forward with the Western European unification process. There should not be a strong Germany without it being tied into the Western European and, of course, the Atlantic situation. There is no dispute about that.

**German Unification and Europe**

This German member cautioned against alarmist fears: “The unification of Germany is a deeply emotional affair. It touches the very heart of our hearts. The point to note here is that while there is deep joy and unbounded human elation—we all remember the pictures of the people dancing on the Wall—there was no flag-waving and there was no chauvinist frenzy or even nationalist fervor. And I find this reassuring. This is the first time that has happened in our history.

“Many of us, including myself, did not expect this to happen in our time. Some of us, including myself, were not sure whether they wished for it to happen. And now that it is happening, we will see to it that the historic opportunity which the tidal shift in international affairs has washed upon our shores will not be missed.”

There were some concerns raised about the economic impact of a united Germany. A British member had the following to say: “My own perception is that German supremacy in terms of economic achievement is already one of the outstanding facts of the European Community. In a few years time, when German unity has been achieved fully, there will be even greater economic power available to Germany. **How can that power, in a sense, be contained and better distributed?** By first, maintaining the NATO links between Europe and North America and, above all, the integrated command system of NATO....And second, I do not understand why the effort should now be made to bring about the completion of a European monetary union, in which exchange rate policy will in the future be denied the countries of Western Europe, when that adjustment of the exchange rate is about the only serious weapon that they have in rectifying the imbalance of German economic power and the supercompetitiveness of German industry.”

A German member addressed these concerns in the following way: “Germany has always been a critical mass. The addition of the East German potential will not only mean a ten percent addition of GNP—that is now. In five years’ time it will be a 30 percent addition. And this has to be balanced and accommodated. My plea to my English friends is help us balance it, but do it from inside, do not do it from the sidelines. That is the whole point about balance of power policies in Europe today. We feel compunctions about German unity coming into being faster than European unity; and we are serious and honest when we say that we would like German unification to become the engine of European unification. We have never been the free-riders of American, British or even the French caricatures—balancing precariously on the running board, waiting to jump off as soon as unity comes around. It is quite the opposite, and it is the opposite today. We seek reassurance; **we want to be tied in; and we do not mind others to call this ‘tying us down.’**

A Spanish member responded to another German member with the following comments: “You said that German unification and European unification are parallel processes. And, of course, many European politicians have said that they are faces of the same reality. But as a matter of fact this is not true. We know that German unification is an actual process, and we know that European unification is just a project—a very deep and serious project, but just a project. For instance, we know what Germans will do in a very short time about monetary unification, but we do not know what is the future of European monetary union.

“You said that a unified Germany is only possible in a united Europe, and all the Europeans and even Americans have said the same thing. I fear we are not playing with juridical or equivalent notions, because all of us know what German unification means—a unified state, maybe a federal state, but one state. **What do we really mean by European integration?** I am sure that not only Prime Minister Thatcher and Mr. Delors mean different things, but when Secretary of State Baker speaks on European unification, he said that he believed in a free commonwealth of sovereign nations. And this is different from German and Eurocratic ideas on the same question.”

A German member had this to say: “What is German power? It is the power of the private sector—of the economy—not available to a government. These are com-
panies which are partly not even German, but owned or co-owned by others. It is bizarre notion to think that economic power is translatable into state power. And what totally escapes me is the argument that German power is an argument against joining economic monetary union. I always thought it was the other way around. According to my arithmetic, the German economy accounts for 28 percent of the GNP of the Community—which means the remaining 72 percent have the majority.”

On the reconstruction of East Germany another German member added: “This is not only a German obligation, but it is an international—an European, American, and Japanese—challenge. And the East Germans, who are facing unity, would like nothing better than to see that not only West Germans, but Americans, Japanese, French, Italians and others help to rebuild the country, to invest, to start joint ventures, and to help to bring the economy of East Germany to the standard of the West.”

POLISH-GERMAN RELATIONSHIP

A German member addressed the Polish-German border issue in the following manner: “The burden of history makes one overlook the changes that history has brought about.... I would like to point out three that have fundamentally changed the equation when you look at the Polish-German relationship.

“Today, West Germany is the country with which Poland has the most intensive relationship at every conceivable level....

“Second, what the totally superfluous debate on the Oder-Neisse line makes one overlook is that there is a national consensus that the Oder-Neisse line is the final border. ....

“But the most important point is Poles and Germans—West Germans and also East Germans—have a common reference point of fundamental importance and that did not exist in the pre-war period. And that is represented by President Delors. In other words, the political elites in both countries now believe that this (European integration) is the answer to the future.”

A French member was concerned about the border issue: “We have to speak very frankly. The Polish-German border issue is not only a problem for the Polish people.... In the European Parliament some German colleagues tell us that it is difficult for them to vote some resolutions because they come from East Germany, and perhaps some people do not understand why they accept the new borders. So, it is good to acknowledge the problem and to have the guarantees.”

OTHER COMMENTS

This Japanese member spoke about his country’s involvement in Europe: “It is very encouraging to hear from President Delors this morning about a role to be played by Japan in the CSCE, and not only in human rights questions. We are also much interested in playing a role in the economic area. In order to convince the Japanese people, and in order to encourage the Japanese government to play a much more important role, it is very important for Japan to be accorded the opportunity to participate in the decision-making process. Through that involvement Japan can convince her people why Japan should do so.”

Several members spoke up about recent developments in Lithuania. A British member had the following to say: “It is outrageous what is happening in Lithuania; and we should be saying so. There is this idea that we can keep Gorbachev in power. Gorbachev can keep himself in power; he is capable of looking after himself. What is happening in Lithuania, under any of the principles of democracy and self-determination, is simply wrong, and we should be stating it so. They are using force. Economic sanctions are force. And we ought to be expressing a view that a Baltic Community—which includes Estonia, Latvia, Lithuania, Finland, Sweden and Norway (if they haven’t joined the European Community)—is a natural grouping which ought to be then very closely linked with the European Community, and perhaps later with some Black Sea or Danube Community.”

A British member raised the following issue about the political structure of a strengthened European Community: “I think that the democratic accountability argument is a very important argument.... The Council of Ministers is not under democratic accountable control because parliaments can actually have very little impact on the Council’s decisions.... There has got to be some change or else we need something other than national parliaments to do the job. My betting is on a reinforced, more effectively organized and a better structured European parliament.”
The United States is in something of a strange mood right now. In a sense, we have won the cold war, but there is very little sense of victory. If you look at public opinion polls, George Bush is an extraordinarily popular President; and basically, people are optimistic about their private lives and short-run circumstances. But the polls also show a great deal of uncertainty, and even pessimism about the long run. The certainties of the cold war period have eroded, and people are anxious about the longer-term future. Indeed, in a public opinion poll taken last year, 50 percent of the American people thought the country was in decline.

Does this matter that there is this American mood? One argument is to say, “Well, if this worry about decline makes Americans shape up, so much the better.” After all, Americans have worried about their situation in terms of decline right from the founding days of the Republic. Arthur Schlesinger has pointed out that the founding fathers wondered and worried about decline. After the depression in the 1890s there was anxiety about decline. After the Russians put up Sputnik in 1957 there was anxiety about decline. So you could say it is just a question of cycles and not worry much about it.

But the thing that worries me about the mood is that the polls also show that people who believe the country is in decline also tend toward policies of turning inward and policies of protectionism. They also tend to have a feeling of being poor. And when you feel you are poor, you feel you cannot afford to do the things that you ought to do—whether it is domestic investment, or the things that are necessary to build upon the gains that we have made by “winning the cold war.”

If this mood had these effects it would be a double irony. Essentially, if you follow the policies which come from declinist thinking, you could indeed bring on decline at home. It seems to me protectionism is a clear recipe for making industries non-competitive, and it could also lead to policies which could destroy the cooperation that has been built up among the Trilateral countries. Both of these would be severely mistaken.
Indeed, the historical analogies that go with this fear of decline—the rise and fall of great powers— makes many people think that the United States is, in the end of this century, in a position analogous to Britain at the beginning of this century. The response, then, is to ask who is the challenger. Who is going to replace the Soviets as the new enemy? Will it be Japan? Will it be a fortress Europe? The net effect of that form of thinking is to follow inappropriate policies of fending off our Trilateral partners rather than finding ways of bringing them in. In that sense, it is interesting to look at the public opinion polls again—which show that more Americans now say they feel a greater sense of threat from Japan than from the Soviet Union. I think those polls are misleading, but, nonetheless, they are there.

THE FACTS ABOUT DECLINE
What are the facts about decline? How justified or unjustified it is? If you say, "this is the way the world is," maybe it is just an accurate perception.

It is clear that the United States has declined since 1945. Even if you allow five years for a degree of post-war reconstruction, in 1950 the American share of world product was about 35 percent; today it is 23 percent. That is clearly a decline. The trouble is where you start the measurement, because starting right after World War II does not account for the World War II effect. While the war devastated everybody else, it strengthened the United States. For a quarter century, the Americans basically gave back that abnormal share of world product and power which they had as a result of the war. Much of that had worked its way through the system by the early to mid-1970s. Indeed, the big adjustments to the change in American power occurred in the Nixon Administration—with the closing of the gold window and the U.S. withdrawal from Vietnam. If you look at the American share of world product since the mid-1970s, it stays basically constant, at about 23 percent. And if you look at the share of the world product today and look and see what it was before World War II, it is roughly the same. This suggests that World War II gave you this artificial mountain on what otherwise has been more of a plateau than a "continuous and precipitous decline."

You might say, "Well, that is too gross a measure—world product includes too many things; and the real problem for the United States is that it is de-industrializing." It is not clear that the numbers fit that description either. Manufacturing as a percent of GNP is about 22 percent today, and was about 21 percent in the mid-1970s. In fact, American manufacturing as a share of the OECD countries' total actually increased from the 1970s to the 1980s. And manufacturing productivity in the United States in the 1980s went up by 3.5 percent a year. In that sense, the de-industrialization argument does not seem a very good description either.

If you look at particular sectors, you can always find decline. Or if you compare certain periods with other periods you can find decline. But in the aggregate, it strikes me that the numbers do not support the theory very well, nor does the historical analogy fit—the argument that the United States is reproducing what happened to Great Britain. One thing that is not always remembered is that Britain at the peak of its power, at the end of the 19th century, was the third largest economy in the world and had the third largest military, and that by 1914 it had been passed by its major challenger, which was the Kaiser's Germany. That is quite a different proposition from the situation of the United States, which remains the largest military and the largest economic power, and also which is faced with competitors who are not, like the Kaiser's Germany, passing it both in economic and military power, but have different types of power. The Soviet Union, our primary military competitor for the last 40 years, is indeed suffering economic decline. And Japan and Europe, which are our new economic challengers, each are in different ways not competitors that resemble in any way the Kaiser's Germany.

In that sense, I think that the analogies that are often used are not very helpful, nor is the theory which is used to support them. Very often we are told that the problem that the United States faces today is imperial overstretch. Imperial overstretch, we are told, is something that has gone on throughout history. A rising economy generates economic interests which flow across international boundaries; it then develops a
military infrastructure to protect those interests; that military infrastructure gets so expensive that it saps away the domestic sources of economic strength and brings on decline.

Does that fit the American facts? It does not. If it fit the facts, the military budget as a percent of GNP should be continually increasing. In fact, just the opposite is the case. Military spending as a percent of GNP was ten percent in 1959, and today, even after Reagan’s build-up, it is only six percent. So the numbers and the theories go in opposite directions.

Indeed, if you wanted to look for a decline, you would find it more in the circumstance of the Soviet Union—where imperial overstretch really does fit. There—with the military as a percent of GNP at about 17 or 18 percent, which is about three times the burden in the United States—you do see the basis for imperial overstretch, and you also find that the Soviet share of world product has declined over the last decade. In addition, Soviet industry is suffering. Nikolai Shmelov has argued that only eight percent of Soviet industry is of world standard. It is very hard to remain a superpower if 92 percent of your industry is sub-standard.

I think you can really see the Soviet experience—what lies behind Gorbachev’s current dilemmas—as one of a failure to adapt to the third industrial revolution. If the first industrial revolution was the application of steam, and the second of electricity and synthetics, the third, clearly at the end of this century, is the use of information—and flexibility in the use of information as the scarcest resource in a society. The Stalinist planning system, which was good for heavy industrialization in the 1930s, is all thumbs and no fingers. Essentially what the Soviets are facing is a desperate need to adapt socially, economically and politically to major changes.

The following may illustrate the scope of their problem: in 1985, when Gorbachev came to power, there were 50,000 personal computers in the Soviet Union. In the United States at the same time, there were 33,000,000. In other words, there is a long way to go before perestroika, even if it succeeds, will be able to bring about the adaptations that are needed.

Some would say that means the end of bipolarity, that if the Soviets are in that sort of decline, we must then be entering a multipolar world.

Well, yes and no. If you mean by multipolarity a world which resembles historically the 19th century or the 1930s—where you have five roughly equal balanced powers who shift alliances constantly to keep the balance of power—I think that is a misleading analogy. In addition, I think what you are going to find is that the United States will remain, at least in the next decade, the country which has more power resources in more areas than other potential competitors. As I mentioned, the Soviets, and also the Chinese, have severe economic disabilities; Japan, while it has had a marvelous record in terms of its economic growth and power, still has not a great deal of military or ideological power; Europe, which has the potential to be a full superpower, still lacks unity. And while we can hope for much more progress on European unity, full unity in the next decade, I am afraid, is not likely.

If that leaves, then, a situation where the Americans are likely to stay the largest power, what does it mean? It certainly does not mean a return to the world we saw in the 1950s. And the reason is that being number one is not going to be what it used to be. And the reason for that is what I call the diffusion of power.

THE DIFFUSION OF POWER
The problem that we have to face is not who is chasing us in some transition of hegemonies. That is the wrong way to think about it. The problem we have to face is that power is being diffused to a much broader range of private actors and small and weak states. Let me give you four trends which may illustrate this.

One is the growth of nationalism in, otherwise, poor and weak states—which makes it extremely difficult to use military force to control what is happening inside them. The Americans found this in Vietnam; the Soviets found it in Afghanistan. But if you want to illustrate it with a little thought experiment of your own—recall that in 1953 the United States put the Shah back on the throne of Iran with a small covert action. Ask yourself how many troops would have been needed to have put the Shah back on the throne in 1979.
Answer: too many. And that is essentially a diffusion of power.

The second example of a diffusion of power is economic dependence and the growth of markets. Essentially, here what you have is a situation where the ability to set economic policy independently is increasingly constrained; not because power has shifted from London to Washington to Tokyo, but because power has shifted to millions of people watching little green screens 24 hours a day in London, Washington, Tokyo, Frankfurt, New York, and so forth. In that sense, power is diffusing to private transnational actors.

A third dimension of diffusion of power is the spread of technology. One simple proposition is that with time, technology spreads. And if you look at some of the technologies of mass destruction, they have been around for some time: chemical weaponry—about 80 years, nuclear weaponry—a half century, ballistic missile technology—something in the range of 30 years or more. And what you find is that more states are going to be able to play in this game. It does not mean that the 20 states with chemical weaponry or the nine with nuclear weaponry or the 15 that are developing ballistic missiles are going to be emerging superpowers or hegemonic challengers. It does mean that when you want to project power into an area like the Persian Gulf, the fact that Pakistan—or perhaps in the future, Iraq—will have these capabilities is going to set limits.

And fourth among the trends in the diffusion of power is the change in the agenda of international politics. If you noticed your newspapers over the last year or so, you have seen many more stories on the front page about global warming, about the problems of the debt and its effects on the international financial system, on drug trade, on terrorism, and so forth. And what this does, in many cases, is increase the power of the weak. One way to illustrate this would be to think about the question of Peru. Suppose the United States got very angry with the fact that the Peruvian government is allowing people in the Andes to grow coca leaves, and we said, “We will bring all our traditional power resources to bear on this—we will blockade the port of Callao; we will have economic sanctions against the government in Lima.” What would we do? We could bring down the government in Lima, I suspect, but I do not think we would stop the growth of coca leaves in the Andes one iota—indeed, it might increase—not would it stop its influx into American cities. In that sense, what we are going to face is a rather different world in which we are going to need to get organization for cooperative action among many states to deal with many of these transnational issues.

I would argue that the kinds of things we are going to see are trends in international politics where power is going to become somewhat less coercive, somewhat less flexible; and we are going to have to think of both “hard” and “soft” power. Soft power means your ability to use international institutions and your cultural and ideological appeal—which, incidentally, are areas where Americans have done relatively well in the past.

**IMPLICATIONS FOR AMERICAN POLICY**

What does that mean for American policy? It seems to me that while it is important to maintain the geopolitical balance, it is equally important to maintain an open international economy, and to begin to develop more in the direction of flexible, multilateral institutions, and also to deal with domestic problems relating to our deficit, our savings rate, educational performance, and so forth. But in addition to that, we want to maintain the relations among Tri lateral countries—who are the three great areas on the cutting edge of the third industrial revolution—and we want to try to bring areas like Eastern Europe and Central America into a relationship where you encourage pluralistic and democratic societies there.

When people hear this, they say, “Well, that’s fine, that’s terrific, but obviously we cannot afford it. Haven’t you heard that we’re poor, that we’re in decline, that we have a budget deficit.” The question is: Is that really true that we cannot afford it? It is worth noticing that the United States is still the richest country in the world, with the highest levels of absolute productivity, and the lowest levels of taxation of the advanced industrial countries in the OECD—which raises questions about whether the aphorism that is sometimes used, that the American problem is not will, it is wallet, may be upside down. I think it is. The American problem is not wallet, it is will. We are in the strange political mood of being unwilling to do
the things we need to do to maintain leadership—
both at home and abroad. There is no reason that this
country cannot afford both to promote democracy in
Poland and improve education here at home. But the
open question is whether politically we are going to
pull ourselves together to do it.

If you believe that American politics goes in cycles
and you look at the 1920s, you can say that was a peri-

dodrum as well—and we came out of that. I
think you can argue that we may come through some
of these worries about the long run once again. But it
is an open question. If we follow the wrong policies, if
the psychological mood has the wrong effect, we in-
deed are quite capable of bringing on decline. In that
sense nothing is predetermined. I guess the basic mes-
sage here is that we should beware of historians bear-
ing false analogies. The question is really up to us as to
what policies we follow. That is the current situation
of a changing United States in a changing world.

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Canadians are not ones to harbor great doubts about American power. Nor have we been greatly impressed by the gloomy scenarios. As America’s next-door neighbor, we have come to learn a good deal over the past century about the underlying strengths of the American nation—its resilience, its dynamism, its astonishing capacity to absorb dissent. And we are aware, too, of its surprising ability to achieve a consensus on big issues—the recent Clean Air Act is an example—at a time when it is fashionable to despair about the capacity of the U.S. system of government to produce coherent policies in the face of so many fractured and dispersed pieces of political power.

As much, if not more than any other country, Canada has become accustomed to living with American power and, to a significant degree, defining ourselves and many of our policies in relations to the reality of that power.

In our entire history as a nation—now extending over 123 years—the Canadian scene has been dominated by two overwhelming themes. One is the maintenance of an independence and identity while living next to what became the world’s strongest and largest economic power, and greatest wielder of soft power, especially cultural power. The second is to hold together a country suffering from historically strong centrifugal forces—a country with a relatively small population occupying the second-largest territory in the world, with two separate dominant language groups, and powerful regional governments with strong entrenched powers. The two historic themes—maintaining a politically sovereign nation distinct from the United States and maintaining national unity in Canada—are intertwined; they affect each other.

As contemporary events in Canada are showing, they are not unrelated.

Relations with the United States: Canada-U.S. Free Trade Agreement
The first theme in our national existence came to a crisis stage just over a year ago. The Canadian federal
election in the autumn of 1988 was unique in that it was fought on a single issue—to have or not to have a Free Trade Agreement with the United States. Until that agreement was negotiated, almost all relevant Canadian national policies of the past 25 years were directed to limiting U.S. influence in Canada. The controversial investment screening mechanisms, the restrictive national energy policies, and the Canadianization of various economic sectors were formulated with a view to halting the steadily increasing economic domination of Canada by the United States. Some worked, some did not. But none were successful in limiting the growing dependence of Canada on the U.S. economy. The 16 years of Trudeau rule, when many of these policies of economic nationalism were promulgated, saw a substantial increase in that dependence on the U.S. economy.

So the Canadian initiative—and it was a Canadian initiative—for a bilateral free trade area broke new ground because it was directed to a new problem in the Canada-U.S. relationship, one that crept up on us as we fretted about growing U.S. control over the Canadian economy. We slowly became aware that our access to the U.S. market—on which we were dependent for three-quarters of our global exports and one-quarter of our GNP—could be seriously threatened by a growing protectionist mood in the United States, especially in Washington. Almost everything that grew in Canada, almost everything that came out of the ground, and for sure everything that came out of the water, were falling under some form of protectionist pressure created by what is aptly called "procedural protectionism." In other words, fear of vulnerability to American power shifted the ground in Canada from defense to offense, from preoccupations about our protection from U.S. economic penetration into Canada to concerns about threats to our own penetration of the U.S. market.

In re-electing the Conservatives for a virtually unprecedented second majority term, the Canadians chose the route, in 1988, of accepting American power as a potential asset, and opting for maximizing the value of that asset by seeking guarantees of more reliable access and greater fairness for Canadian goods and services in the United States.

The agreement marked the receding tide of economic nationalism in Canada. It marked an acceptance of the realities of continental economic integration and a recognition of American power and a recognition of the need for Canada to achieve greater competitiveness on a world scale. It shattered old Canadian myths about ourselves and became a turning point in our history.

That agreement is not without its critics, but it is working and taking effect. Two rounds of the tariffs cuts have been implemented; an additional accelerated schedule has been put in place and implemented; a new accelerated schedule is in the making; the innovative bilateral dispute settlement procedures are in heavy demand by both private parties and governments; and an increasing number of business decisions are now being made on the basis of there being a single, borderless North American market. Business investment in Canada, including foreign investment, is at very high levels, imports of capital goods and equipment are strong, and continent-wide industrial rationalization is occurring.

Although the Canadian economy is limping along at the moment after seven years of strong growth—now troubled by high interest rates, anxiety over inflation, a historically high dollar, an intractable deficit, and the introduction next year of a new national sales tax—it is likely that the economies of both Canada and the United States will be strengthened in the medium to long term by increasing competitiveness, rationalization and productivity.

The agreement, in my opinion, will not be undone. While still unpopular with Canadian economic and cultural nationalists, who tend to blame all our problems on it, it is on the back burner as far as public debate is concerned. The Liberal Party, which opposed it, is now in a leadership race to replace the recently-resigned leader, John Turner, an unrepentant critic of the Free Trade Agreement. The leading contender, Jean Chrétien, who is well out ahead, and the others, talk really only of seeking to amend or improve the agreement.

CENTRIFUGAL FORCES: THE MEECH LAKE ACCORD

I will not try to explain what is known as the Meech Lake Accord to you. In essence, the Meech Lake Accord is the latest attempt in a century-old effort to define Quebec's place in the Confederation, and
probably its most controversial and far-reaching proposition is the recognition of Quebec as a "distinct society." But the issue is intertwined with English-speaking minority rights in Quebec, and French-speaking minority language rights in the rest of Canada, and other issues. The net effect of all that is to cast Canadians into an ungenerous mood towards one another. In English-speaking Canada a rash of negative sentiments towards the French language has broken out, and the psychological mood in Quebec is negative. There is not a politician in Canada who has not been drawn deeply into this debate. And recently, our former Prime Minister Trudeau entered the fray to condemn the Meech Lake Agreement.

The Accord, which must be ratified by all ten provincial legislatures, is in deep trouble, because three of the provinces are not in favor of it and time is running out. Although there may be a last ditch effort to save it, the betting is against the Accord.

There is a growing fear in Canada that if it fails on June 23 separatist fires might spread, leading to a new referendum in Quebec, and possibly demands by Quebec Prime Minister Bourassa to redefine the terms of union with Canada. He and others have hinted vaguely at seeking, in such circumstances, new supra-national structures along the European model. Moreover, the official opposition in Quebec is independentiste. This is leading to a situation where, in recent days, Canadian politicians in the Maritimes have been openly debating the untenable economic position of their provinces if Quebec were to secede, and the possibility that this could lead to union with the United States. And in the United States some mouths are beginning to salivate. "There is nothing wrong," writes a well-known columnist, "with Americans dreaming of a republic that by the year 2000 encompasses the Maritimes and the Western provinces of Canada and the Yukon, the Northwest Territories, all the way to the pole—giving the United States a land mass rivalling that of the Soviet Union." "The 21st century," he says, "then could not but be the second American century."

If I were an American, I would not hold my breath waiting for Canada to collapse. This is not the route that will lead to the second American century. The United States should look to the solution of its own domestic problems and challenges for that. Nothing is for sure in life, as we know. But Canada will not, in my opinion, break up. We have had constitutional crises before, and I predict this will not be the last. Just as many underestimate the resilience of the United States and its capacity to absorb deep social dissent, some foreigners and, I have to say, Canadians underestimate the true strength of the commitment of Canadians to one another.

It is not some magic glue that has held our far-flung country together, in spite of our linguistic duality, cultural diversity, language quarrels and dispersion of regional power. What has held us together—beyond the common bond of history—is the compelling power of national self-interest.

There is no constituency in Canada which favors becoming part of the United States. Much as Canadians respect this country—and, indeed, love it and admire it—there is a large consensus that Canadians would lose a lot more than they would gain from being part of the United States.

In the final analysis, Quebeckers will, I believe, appreciate that their linguistic and their cultural fortunes will not be enhanced by reducing the reach of their territorial jurisdiction in a continent of English-speakers. And English-speaking Canadians, while sharing many cultural characteristics with the Americans, have, I believe, demonstrated throughout their history that they too are passionate in their desire to preserve their national institutions, way of life and national identity.

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THE QUESTION OF THE CHANGING nature of American power is a subject of great interest to the Japanese. But I would say that any debate about America’s current position in the world must really address the question of the changing nature of power in today’s international environment.

For decades, political scientists like myself and many practitioners have grappled with the problem of how to assess the question of national power. Traditionally, many have given central importance to military power as the ultimate source of national power, and have insisted upon the primacy of the military/security issue in international politics. But world developments in the last few years point to the need to cultivate a much more pluralistic appreciation of power.

It may not yet be time to discard the relevance of military power as such, but it is becoming increasingly clear that military capabilities no longer determine the global balance. Economic resources, on the other hand, are more and more proving to be decisive, not only as components of national power, but also as instruments for international influence. Other factors such as the level of scientific and technological advancement, the strength of communications capabilities, and the attractiveness of cultures and political and social systems are all entering into the arena of global politics.

Judged against an increasingly pluralistic appreciation of national power, I think Professor Joseph Nye’s thesis—that American preponderance can be sustained on all scores—presents a very convincing argument. But the question is how and whether the widespread public impression of American power decline might be offset by an understanding of the complexity of international relations today.

The theories of decline, whether based on historical analogies or on theories of imperial outstretch, benefit from the power of simple logic. Moreover, they seem to provide certain explanations to those who feel uncertain about the nature of the rapid changes sur-
rounding them. Particularly in the case of the Japanese, the theories of the American decline have gained considerable attention and approval.

To begin with, I think the Japanese people in the post-war times have tended to judge national power by one yardstick—economic strength. They have understood the importance of political-military resources, but somewhat more in the abstract sense, since they have been accustomed to believing that these are the instruments of superpowers, and that they must be ultimately based on economic strength. From a primarily economic perspective, the facts that impress the Japanese are naturally economic. The American fall from being the world's largest creditor before 1985 to being the largest debtor afterwards has been frequently cited as the most significant fact. The American share in world monetary reserves, in world products, as well as world exports, in foreign aid and contributions to multilateral institutions—these figures all show a sharp decline in relative share in the last three decades.

It is against these indicators that Paul Kennedy's *The Rise and Fall of the Great Powers* made a powerful impact on the Japanese perception of the declining nature of American power. Published in 1988 in Japan, this book made the nonfiction best-sellers list for ten weeks—and this is really unprecedented. A two-volume book covering 500 years of Western history has never made this kind of list before, nor aroused such intense debate in the media.

This does not mean that the Japanese think of themselves as the emerging hegemon of a new international system. They do recognize the relative rise of Japanese power against the relative decline of American power, and cite financial, industrial and technological factors to prove the shift. But when it comes to the political will, the military strength, and the capacity to mobilize economic and technological power for world influence, most people seem to feel that Japan is lacking in these decisive qualifications. And most people are willing to follow the United States as the strongest power, even if it might be at the start of a very long process of decline. I would like to note here that there are some who are much more nationalist in their confidence of Japan's power, and that they would like to stand up against the voices of criticism that are aroused overseas. Japan-bashing has invited the reaction of bashing back, and I really do not think this is a very healthy sign. But this is a tendency that should be watched. And I am quite concerned about this tendency.

As to the question of what caused the American decline, opinion polls show that the Japanese tend to point to a number of socio-economic factors. They frequently refer to factors such as a lazy workforce, the presence of too many racial and ethnic groups, and the spread of drugs and alcohol addiction. They are also critical of American business as being too interested in short-term returns, not sensitive to foreign market demands, and incapable of producing quality goods. In fact, many seem to regard the American future with a certain sadness, if not pessimism. In spite of these negative images, it is important to emphasize the continuing trust, or sense of closeness, with which the United States has been held by a large majority of Japanese throughout the postwar years, including the present time.

The question of America's position in the world depends, not so much on whether the United States possesses or has maintained its power resources, but on whether it has the intention to provide the kind of leadership that it had provided in the past.

Today, the world is at a crossroads. No one can predict for certain the shape of the international order that will emerge after the end of the cold war. No new vision has been presented that will rally both the rich and the poor from all over the world. New international institutions may become necessary to manage the emerging new interests and concerns. Some of the existing institutions—the United Nations, the Bretton Woods Institutions, and so on—may need a thorough reform to accommodate to the changes that are taking place.

Frustrated by the radicalism of the Third World, the United States has come to downgrade the organizations that I have cited just now. But will the United States merely continue its half-hearted approach, or will it make a stronger bid to overhaul and strengthen international organizations? I do not see, as yet, any strong sign that can be detected that the United States
is ready to commit its considerable human and financial resources—and I recognize that these are enormous—to prepare institutions, both formal and informal, to cope with the new world problems that arise.

Exercising leadership in the coming years, however, may be a very difficult undertaking, because the resources on hand today are much more complex. When military power determined the world power balance, it was probably easier for the United States to demonstrate its leadership. Now that economic power is becoming increasingly more important, and the hierarchy among issue areas has become blurred, the United States will have to contend with many different challenges and challengers. Most of all, it will have to strengthen its domestic base in order to exercise power in the international arena—increasing domestic savings, lowering the federal budget deficit, and mobilizing investments in education, research, and infrastructure.

Lastly, we should not expect the United States alone to assume all the reconstruction assistance and development responsibilities necessary in the next decade. We all remember the kind of leadership the United States took in the post-war period to rebuild Western Europe and Asia, including my country.

In today's world there will have to be several Marshall Plans in several parts of the world—with greater contributions from more countries. There is already a kind of a mini-Marshall Plan under execution in the Philippines, under the auspices of the World Bank—in which the United States and Japan are participating in a very meaningful way. It is important to emphasize that the United States is looked upon to take the lead, to set up new plans and new arrangements, and also to persuade others to make the necessary sacrifices and provide the necessary support.

America's position in the world will depend very much on the kind of central leadership—and I think the term central is very important here—that it shows not only to its allies, to the Trilateral countries, but also to many others in the East, and the South, that is, the developing countries. They are all turning towards the United States for continued leadership, so that they, too, can help lead the world.

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I would like to begin by suggesting that U.S. policymakers today have to take account of three major developments and keep their focus on those and divert their attentions from their inward-looking debates, which Joseph Nye has rightly shown to be pointless.

The first, and far the biggest and most significant development happening before our eyes, is the decline of the Russian Empire. The second is the necessary and inevitable rising involvement of Japan as a global power in all aspects of policy—not just economic, but security and political. And the third, about which I shall spend most time in my remarks, is the rising cohesion and sense of identity of all Europe, with an enlarged Germany at its center.

And if I may continue with my observations on the aims of U.S. policymakers, they are presumably, if these trends are recognized and agreed, to forge new, different and more symmetrical partnerships with the new Europe and with Japan and East Asia, in contrast to the asymmetrical partnerships which have existed since the Second World War. It seems to me that if that is the aim of U.S. policymakers, then it is essential that the United States understands what is really happening in these areas and does not misunderstand and make policy errors in consequence.

The Decline of the Russian Empire

I hope there are no illusions, although I do hear some, that the Soviet Union is a very rapidly declining power. It is a society now organized on a completely unprincipled basis, in the sense that there is no doctrine left except power to hold it together. Anything that exists at the moment is hastily renamed socialism before the next developments come along and they are renamed socialism.

This means that we are facing very troubled and dangerous times as far as the Soviet Union and its influence on Europe is concerned. All the difficulties that a declining imperial power encounters, all the bitterness, all the hang-ups, all the inward-looking commentary, all the inability to get the process of
disengagement and unravelling of empire right—all of which things are going to be manifest in relation to the Soviet Union.

The one hope, from the point of view of the Soviet Union, may be that they can unravel their enormous military expenditures fast enough to prevent themselves from sinking into total economic and social chaos—although that could be very near. There could be a chance that the really radical Soviet economic reformers—Gorbachev's men have had rather a feeble run so far, but may now be stronger now that he has taken on more executive powers—may be able to bring in the dramatic reforms (the ruble, the two-tiered ruble system), the open sectors, the enterprise sectors and so on, which some of us were urging they should introduce two years ago.

It may just be that the Soviet Union can slow down its descent by some success in these areas, particularly by succeeding in unravelling its troop and military expenditures as fast as it can. But we should not be misled by these developments either. There was an article in the Washington Post this morning that struck me as extremely silly, implying that because the Soviet Union was succeeding in running down its troop strength it was therefore going to be weaker—of course, the opposite is true. The Soviet Union's strength lies in its hope of unravelling its crushing and suffocating and strangling military burden as fast as it can.

**JAPAN AS A GLOBAL POWER**

Japan is adjusting extremely fast, much faster than some of those in Washington policymaking circles seem prepared to accept. If policymakers will not accept it, then I think financiers must now do so when they can see the huge upheavals going on in Japanese financial and stock markets.

It seems to be overlooked that Japan has liberalized at an enormous speed, is conducting the world's largest overseas aid program, and is moving to a global position in economic terms at a very rapid rate. We in Europe find that the media-reported version of U.S. political attitudes toward Japan as faintly absurd. All this talk of chrysanthemums versus revisionists sounds to us bizarre, and right out of key with the reality. The reality is obviously that Japan is a high-saving, highly efficient society. We also find the whole idea of the Structural Impediments Initiative as a faintly undignified exercise, and one more device for avoiding the reality that Japan's surplus and the United States' deficit arise from the enormous power and efficiency of the Japanese economy, and arise on the U.S. side not from your inefficiency or decline, but for a perfectly honorable reason—that you continue to be saddled with a vast military expenditure, which some of you still believe is necessary to fulfill your international duties. Although, it is gradually dawning that to fulfill international security duties in a global setting you do not need anything like the military expenditure that you are indulging in now.

That seems to us to be a an unhealthy relationship. (We are glad when we hear wiser voices prevail in that area.) One hears of nothing else but Japan when talking to U.S. policymakers, and it has to do entirely with Japan in an economic sense. This, in itself, is wrong. It is Japanese involvement in security and political global issues that is the important one. We in Europe find that our Japanese friends are increasingly—and, I think, understandably—anxious to be involved in the reshaping and new architecture of Europe. Japan wants to be associated with the CSCE process, and rightly so. And if people ask, "Well, why should they want to be associated, they are miles away," the answer is that Japan lies at one end of the Euro-Asiatic mass and they are perfectly entitled—and rightly entitled—to know what is happening at the other end. It is of supreme importance to the security and stability of East Asia that they should be intimately involved.

We in Europe are finding ourselves much more closely bound up with Japan, not just on economic issues, but by virtue of the fact that Japan has a serious and committed and increased involvement in the security of Europe and the structure and the reshaping of Europe. I think that should be welcomed.

**EUROPEAN INTEGRATION**

The United States must take care not to misinterpret the constitutional debate in Europe. There is a simple picture—and there has always been in the United States—of a United States of Europe that will tidily get together and be one single unit with one voice, with whom it will be much easier to deal on trade
issues and security issues, and which will fit into a neat pattern of global blocs. That simple picture is a dangerous one and an inaccurate one.

We are certainly getting a tremendous drive towards the Single Market, although there is a great deal to be done in many countries. Often those who are most rhetorically enthusiastic about European union are those that are miles behind in actually fulfilling even the goals of a European single economic market, particularly in relation to capital movements and mergers and acquisitions policy. Certainly my own country, Great Britain, is fully committed to the creation of the Single Market and is, if anything, ahead of other countries and eagerly fulfilling the directives and regulations required for that Single Market to work.

When we come to the idea of turning that into a political union, in the tight-knit sense, then we have to pause and realize that may not be the pattern that develops. It is not going to develop, in my view, for four reasons.

The first is that the concept of very large centralized blocs, with a sort of senior level of institutions and then junior levels of institutions at a national level, belongs to another age. It is the one that is familiar to you here in the federal structure of the United States of America. But it does not actually fit very well with the mood of greater diffusion of powers and the capacity for running societies on a much more diffuse and less centralized basis, thanks to information technology and other modern developments, that is emerging. One has got to understand that in Europe there is a very serious constitutional debate, not one which questions whether Europe is going to be cohesive and effective—it certainly is. But there is a very important debate on how centralized or how constitutional that Europe should be. In short, the age of large states with single capitals—Brussels or Berlin—is all hopelessly out of date and unconnected with the more diffuse and articulated and flexible structures we shall have in the next millennium.

The second reason why it is not going to happen is that Britain will not have it. The British conception of European unity is a very strong one, is primarily economic, recognizes the political involvements as well, but also believes that the Treaty of Rome and its amending treaties, including the Single European Act and any other amending treaties coming up, should be rooted in, and based on, nation states. That can either sound like a very old-fashioned idea, which in some sense it is, or it can sound like a very new-fangled idea, in the sense that one would, in fact, need, if nation states did not exist in Europe, to go round re-inventing them in order to remove and undermine the remote-ness and distance of central government in such an enormous entity as a European Community. Besides which, one just has to reflect on what kind of Europe it would be, supposing it did go ahead to political union without the United Kingdom. It would, of course, be the greater Germany that is about to come into being and France and Italy and Spain and the Benelux countries and Portugal, and so on. That would be a very odd and unbalanced Europe, and one that I do not think would be the right kind of stabilizing pattern or one that the United States would wish to see come into being.

The third reason is because of what is happening in East and Central Europe. The East and Central Europeans want to be associated with the European Community and the Common Market, and quite rightly too. They want, therefore, a structure which is wider and can give them access. They want a structure which can offer a place to countries that satisfy the criteria laid down in the Treaty of Rome for membership in the European Community. It strikes me as really unreasonable and very hard to argue that Austria, for instance, which satisfies all the criteria—never mind about the neutralism, because, as we see, the whole security structure has changed, and therefore the definition of neutralism has changed—should be excluded by some doctrine of going deeper and accelerating the existing European political integration.

A fourth reason why one should be a little careful about assuming that Europe will neatly fall into place in a unified, cohesive form is that one should have some doubts about how Germany is going to proceed. I know that the American policy view is that there should be an orderly process by which we go from four plus two and the CFE talks through to some proce-
dures which bring some propositions to the CSCE forum where we can settle the security of Europe. And in the meantime, Germany should remain a strong and solid member of NATO, and its new Eastern acquired provinces should also be part of NATO, but without NATO troops for the time being, or something or other to keep the Russians happy.

I ask you not to underestimate the possibility that both the West and East Germans, as well as some of the other East and Central European countries, will be very interested in having no foreign troops at all—certainly in having no nuclear weapons on their soil. This is not so much moving towards neutralism in the old language of sitting under Soviet influence, but neutralism in a new sense of being free of all the military commitments and military hardware and military personnel which have dominated this land area of Central Europe for so long. The desire to get rid of all that is very strong. Anyone in European politics, and, indeed, some leading politicians here in Washington, are well aware of the intense feelings at the grassroots level that these things should change and that there should be a much less intrusive military presence generally, not just in East Germany, but in West Germany as well.

**The United States and Europe**

We desperately want to see U.S. policymakers reformulate and continue to strengthen links with Europe in this entirely new context. But please get right exactly what is happening regarding European integration.

The role that the United States is going to play is going to be a different one from the one that it played in the past. It is not anymore going to be a dominant role. You are going to be, I hope, a true partner with a great confederation of European states.

This is not a disguised plea for us to hang on to some special bilateral Anglo-American relationship, because I think that has gone. But it is a plea not to try and replace that with a very falsely-based American-German special relationship, which will lead, I believe, to a dead end. The real need is for the United States to be “friends” with all the individual nations of Western Europe—and close friends. Friends with each, but in alliance, for stability, with all.

★ David Howell is a Member of the British Parliament and Chairman of the House of Commons Committee on Foreign Affairs.
International Economic Cooperation and Domestic Realities
LEWIS CARROLL IS REPORTED TO have said that it is better to be criticized than neglected. While reading the morning papers in Washington, D.C. over the last several months, I felt that Lewis Carroll was not exactly right. I felt relieved, and in fact rejoiced, when nothing was reported in the papers on Japan. But that—namely, no news on Japan—was not frequently the case. Japan, in fact, has become a very popular negative topic in the minds of American people, particularly within the beltway surrounding Washington, D.C.

Let me present several reasons that I think underlie this.

First, a very large bilateral trade deficit—$50 billion—stubbornly persists, in spite of the fact that the United States and Japan have each substantially curtailed their global current account or trade imbalances since the Plaza Agreement of 1985. You might be interested to know that the current account surplus of Japan in 1986 was 4.6 percent of Japanese GNP, while at the present it is estimated to be less than two percent of GNP.

Second, somehow, and very unfortunately, the perception of Japan’s market being closed—Japan being different—is being set in the minds of the American people.

Third, a sense of malaise in the American people—what Joseph Nye described as a “fear of decline”—is juxtaposing itself on American perceptions of Japan, making for the notion of Japan being unfair.

Fourth, and related to the third point, is an inordinate sensitivity of the two countries—Japan and the United States—about how each views the other. The case in point is a famous non-selling bestseller of Mr. Morita and Mr. Ishihara, The Japan That Can Say “No”, and the notion of Japan-bashing and bashing back. This may be the reflection of a lack of confidence on both sides, to put it negatively, or it may well show a capacity for change, a sign of dynamism, and a wish to be appreciated, to put it in positive terms.

And fifth, probably what is most important is that Japan has failed in the minds of Americans—and even
in the minds of Japanese—to articulate in a convincing manner what it is thinking in terms of a universally appealing message to and as regards the international community. What is the national purpose of Japan and how does it benefit human society? Where does Japan go from here? This is probably related to what Joseph Nye described as a "lack of ideology" on the part of Japan, although many Japanese have for some time thought lack of ideology is a good thing for Japan and for the world. Probably the issue is one of semantics.

SII TALKS
In the spring and early summer of 1989, U.S. Congressional pressure for protectionism, particularly directed against Japan, mounted considerably, centering on the issue of the so-called Super 301 provision to be applied to Japan by the U.S. government. Such was the background against which Japan and the United States agreed to initiate the Structural Impediments Initiative (SII) talks, starting last September. After four formal sessions and some informal contacts, we produced an interim report early this month and a final report is expected to be issued by the time of the Houston Summit in July.

The Structural Impediments Initiative talks—which is a bilateral discussion on structural impediments to wealthier trade relations—may well be interpreted as a setback for multilateralism, since two major economic powers are engaging in bilateral talks, while in Geneva the Uruguay Round is entering a final, critical phase. It is also somewhat at odds with the pronounced position of the Japanese government to stress the importance of the third leg of Trilateral relations—namely, Japan-Europe relations.

What I would like to emphasize, however, is that the Japanese government regards the present exercise as of a crisis-management nature, and particularly so since President Bush made an earnest and personal plea to Prime Minister Kaifu in Palm Springs in early March. President Bush stressed that the two countries have got to resolve trade and economic issues on an urgent basis, in order to stop the deterioration of our relationship and to avoid irreparable collision. President Bush emphasized almost unlimited potential for global partnership between Japan and the United States if only these pending economic issues are solved.

It is gratifying to note the determined efforts on the part of the Japanese government with the help of U.S. negotiators. We have come to a good interim report. And the mood of the United States and in Washington seems to be improving, at least the deterioration trend has been halted—at least for the time being. Congressional reaction is, according to one Congressman whom I met yesterday, muted—a remarkable change from one month ago. Those people who wish to speak up pointing to the importance of Japan to the United States or to the world can do so now without the fear of being criticized.

What we are attempting to do in SII is to identify and resolve structural impediments to balance of payments adjustment for both countries as a supplement to macroeconomic adjustment measures.

The American side has pointed out six areas that need to be addressed in Japan—investment/saving patterns, including a sizeable increase in public investment for social infrastructure in Japan; land utilization, including doing something about exorbitantly high land prices; the distribution system, including the matter concerning large retail stores; exclusionary business practices; keiretsu relationships, or groupish business practices, which the American side cites as exclusionary; and pricing mechanisms, which mean, according to a joint survey, that prices in Japan are considerably higher than in the United States or Europe.

The Japanese side has pointed out seven areas that need addressing in the United States—the investment/saving pattern, notably the huge federal budget deficits; the cost of capital; slow productivity increases; U.S. corporate behavior, particularly the short-term horizon of American management; the relative paucity of R&D on the part of the American business community; government regulations; and finally, and where we put considerable emphasis, the education and training of the labor force.

This is a unique and perhaps unprecedented exercise in the history of trade and economic talks. It is very easy to criticize the other as meddling into domestic affairs, and, most probably, this is the case. However, it is to be vindicated in my view for two good reasons: the fact of increasing interdependence...
between Japan and the United States, and the fact that it is a two-way exercise.

Japanese government leaders—particularly, Prime Minister Kaifu—present the case for reform to the country as a major undertaking to serve three purposes: first, to improve Japanese-U.S. relations, which the government presented as in near crisis; second, to enable the Japanese economy to grow more in harmony with the world economy; and third, to serve the interests of Japanese consumers and, thus, to help in an important manner to enhance the quality of life to make it more commensurate with national power.

The degree of public acceptance in Japan of these goals has been gratifying. The government and the LDP leadership has tried very hard to see to it that there is no nationalistic backlash against the United States. The question is whether there will be a backlash in the future. And also, there is the question of how well the Japanese government will implement those undertakings. My short answer for the first question is: I do not know; there might be or there might not be. My short-term answer for the second is: we shall do our best, because it is a good thing.

BROADER PERSPECTIVES
Throughout this exercise, I have been struck by the fact that two identical seeds of capitalism, one thrown into the soil of Japan and the other thrown into the soil of the United States, have produced two different types of trees. These trees intermingle as they grow larger, and you have to cut some branches in order to correct this. Through this exercise—which is unique and very difficult—it is my earnest and personal wish that somehow we can arrive at an ideal shape of trees.

I am not saying that Japanese government-business relations are ideal, for instance, but neither are U.S. government-business relations. A case at point would be corporate behavior. Japanese corporations are criticized for paying less attention to stockholders, for groupishness, and for caring too much about personnel management and clients. I accept some of these as shortcomings, and that we are going to have possible resistance from the business community. But I hasten to add that American corporate attention on the short-term horizon may not be ideal either, and that pension fund managers and mutual fund managers, without participating in the management, can sway the policy of companies.

I think that somewhere in between the shape of these two trees there must be ideal trees. And in search of that ideal shape of trees, the European tree must be referred to. When the American side criticized the keiretsu practices, I am readily reminded that the same type of groupishness or connections is found in the Federal Republic of Germany, led by Deutsche Bank and big business groups.

The areas I touched upon—namely, public investment, high land prices, the distribution system, exclusionary business practices, keiretsu, and pricing mechanisms—all affect some vested interests in Japan. The interesting thing is that every party would have to sacrifice—be it farmers, landowners, small merchants or big business, and possibly the bureaucracy. This is probably the cause for relatively muted resistance to SII in general.

Japan is now producing $3 trillion GNP—compared to $5 trillion in the United States and $5 trillion in the European Community—in the midst of total world GNP of $20 trillion. Japan is among the largest donors to the developing countries; the biggest financial contributor in the field of recycling; the biggest foreign direct investor; an active contributor to Eastern Europe and Latin America; a necessary participant in the resolution of environmental, debt and drug issues; and most importantly, in the field of the development of technology, Japan can contribute to the betterment of the world economy and the human race.

Japan now feels the role and responsibility of a major power in search of a new emerging international system. In that process, we Japanese feel, as the American people felt for some time, somehow different from what Lewis Carroll is reported to have said, but closer to something my son always says: "It is better to be praised than to be criticized."

★ Koji Watambe is Japanese Deputy Minister for Foreign Affairs and co-Chairman of the delegation on "Structural Impediments Initiative" talks with the United States.
I arrived at my current job around 16 months ago and found myself immersed in what I found to be quite a surprising climate regarding international economic relations. We were, after all, in the longest post-war peacetime expansion in the history of the United States; that expansion continued. There has been immense job-creation; and the unemployment rate was the lowest it has been since the early 1970s.

And yet there was—despite this record—a mood ranging from stern to ugly on Capitol Hill and elsewhere about trade relations. We had a new trade law which had been passed in 1988 to respond to various perceived inequities and problems, and to generate some new leverage to deal with them. We had a very large trade deficit, though we found—while the Trade Act was being debated—that the trade deficit had been one-third smaller than was actually thought because our trade statistics had been mis-measuring it. At the end of 1989, the United States was once again the world’s leading exporter—exports are at an all-time high. Still, there are some people who are very concerned about the sluggish pace of external adjustments in surplus and deficit countries.

There is an atmosphere—or a mood—of what might be called “declinism” in the United States, that is highlighted by calls for protection, managed trade, and a variety of other proposals that suggest that U.S. firms and workers cannot or could not compete. Polls show that the American public has a vastly distorted view of the size of the U.S. economy relative to others. With less than five percent of the world’s population, the United States produces more than a quarter of the world’s output; and it is almost three times as large as Japan, which is the second-largest economy. Yet polls show that Americans are unaware of these facts. And there certainly is at least a subliminal concern about foreign investment in the United States and a lot of scare and hyperbole about it.

In an Administration committed to open markets, not close them, to improve the competitiveness of American industry in a variety of ways, and certainly
not by avoiding competition, it was interesting to have that sort of a climate in which to be debating trade issues.

EXPANDING FREE AND FAIR TRADE
The Administration maintains its steadfast commitment to expanding free and fair trade around the world as its primary trade objective. The primary venue for doing that would be a successful completion of the Uruguay Round of the GATT—in a manner that enhances world trade and reduces trade frictions. That is going to require a great deal of acumen. We are talking about some incredibly protected industries and areas—areas that are immensely difficult in domestic politics in our country, in the other countries represented there, and in countries not represented there. In the United States, think about agriculture and textiles, for example; in the Third World, think about intellectual property; think about the problems in moving towards freer world trade in agriculture in the E.C. and Japan. That is why I view a successful completion of the Uruguay Round of the GATT as both a difficult challenge and immensely important.

The Administration has strongly rejected calls for managed trade, industrial policy and other types of government management of economic activity. There certainly are important roles for government to play, and we have proposed some of them. On the other hand, we have resisted other proposals that some think we should have accepted. In general, we believe we need primarily to develop a framework that allows international competition to provide a situation where the value of world output is maximized. I think we have been quite successful thus far in developing that framework, although there is much work still to be done.

While President Reagan, who I much admired, was staunchly free-trade in his rhetoric, the period of the Reagan Administration—a time when we had some very large swings in the dollar, a big rise in the budget and trade deficits, tremendous protectionist calls in Congress, and various trade bills passed—was probably the most protectionist since World War II. It might have been much worse. I do not know whether to give the Congress and the previous Administration high marks for avoiding worse. But the fact is that there was some substantial retrogression, particularly in raising non-tariff barriers in the United States and in the world economy as a whole, although actually, if you look at the data, not for Japan in this period.

With that in mind, if you look at what has gone on in trade policies since the Bush Administration has been in office, I think we have adopted a sensible pragmatic course toward a world of freer and fairer trade. To give a few examples, there were calls for a very large number of countries and practices to be listed under Super 301 last year—something that could have precipitated a major trade crisis around the world. We narrowed and honed that list down to a very small number that could be clearly and carefully identified, in which progress could be clearly measured; and we are making some progress in dealing with those issues. Another example involved steel, an industry in which there is an overcapacity problem worldwide. There was a call for an extension of our steel VRA program for another five years, but, again, we responded practically. We cut the terms of the program by one-half and set up a scheme to liberalize the quotas. As a result, we are now moving toward a world-wide consensus to a certain date at which we will have a much freer trade regime in steel.

SII AND THE BUDGET DEFICIT
In SII we have been trying to deal with some structural issues in both the U.S. and Japanese economies that cause trade imbalances. Regarding Japan, it is important to emphasize that a variety of the measures suggested by the U.S. negotiators would be beneficial to all trading countries worldwide—including Japan itself, as well as the United States. Turning to the U.S. economy, the Japanese side raised a variety of issues that make very good domestic economic sense, but also run against some very difficult domestic politics. Almost all of them have to do with our budget deficit or items in our budget. They have to do with the very low rate of saving in the United States, with changing our fiscal policy mix, and with expanding expenditures in certain areas. We in the Administration have called for some of these.
For the first time, the President of the United States is on record as saying the United States should move not just to decrease its budget deficit, not just to balance the budget by a certain date, but actually move to what would be a unified budget surplus beyond that period of time. That is, the President has called for the United States to move from being a chronic borrower—a net drain both on our own scarce domestic supply of savings and world savings as a whole—to being by the mid-1990s a supplier of capital to the world capital market. This is probably the single most important thing we could do to decrease the cost of capital, spur investment and growth and also, besides spurring investment, redress our current account problems.

There are also a variety of things that could be done on the structural tax policy side and on the structure of spending to greatly enhance expenditures (both public and private) on R&D and spur greater investment.

OTHER ISSUES

Let me mention a couple of other items just to get them on the table.

First of all, we in the Administration view the movement of the European Community toward a more integrated market by 1992 primarily as an opportunity, not a threat. We have been pleased with most of what has been done thus far. We believe that this will not only benefit Europe, but will benefit the United States and the world trading system so long as the final directives do not buy off domestic political interests by throwing up higher barriers to the rest of the world.

There has been some discussion of a U.S.-Mexico Free Trade Agreement, and various other initiatives in our hemisphere. A final agreement is obviously not something that is going to happen instantaneously. We in the Administration very much favor a more liberal trade regime within our own hemisphere. What that gets called and the pace it goes at will reflect many things, including the domestic politics in the various countries, as well as the vast differences between the economies of Canada and the United States on the one hand, and the Latin American countries on the other.

Let me say one thing about G-7 and macroeconomic issues. We have a strong commitment to macroeconomic policy coordination. We believe that sensible exchange of information and sensible coordination of macroeconomic policies can create a healthier environment for the world’s economies. We are also aware that we have very strong and important domestic economic problems and concerns in each of our countries; and we are aware that those will always be a major part of any international decision-making. What we want to see done in the G-7 and elsewhere is to make sure that we are following sound macroeconomic policies, and that that is done in a way that does not cause the world to head into a recession or lead to an acceleration of inflation. We do not see that as likely to happen. Hopefully, we will be able to continue with at least modest growth this year, get the inflation genie back in the bottle, and proceed onward.

I also want to comment about initiatives to improve environmental quality. There are a number of legitimate concerns in this area, and we are moving as swiftly as possible in the United States. However, we will resist proposals which would result in a disruption of economic growth, including proposals that engender re-regulation. Creating a new international regulatory apparatus which would have similarities to the command and control mechanisms that are now being dismantled in Eastern Europe would also be problematic. Indeed, it would be a sad irony, and is something we would clearly oppose. To the extent the evidence—the legitimate scientific evidence—suggests we need to be more aggressive in dealing with environmental problems, we need to do that by doing what economists call “internalizing the externalities,” or getting market prices to reflect the costs of pollution, not by moving backward to a command and control regulation system.

Let me finish by saying that the President has a strong commitment to working with our trading partners—both developed and developing countries—to try to create an economic climate that is conducive to world-wide economic growth. We believe that is not a zero-sum game. We believe that a more liberal world trading system, sensible macroeconomic policies, and some of the other issues I have described, will lay a framework that will maximize the probability for increased living standards throughout the world.

★ Michael Boskin is Chairman of the U.S. President’s Council of Economic Advisers.
I want to deal primarily with two topics that have not been dealt with so much by my fellow speakers: one is the process of international policy coordination, and the other is Economic and Monetary Union in the European Communities.

INTERNATIONAL POLICY COORDINATION
What are the expectations of the Europeans in global economic management with the two other Trilateral regions?

We welcomed the return to a more explicit coordination focussed on exchange rates with the 1985 Plaza Agreement. The E.C. countries which participate in the G-7 meetings also welcomed, though with varying degrees of enthusiasm, the effort in the 1987 Louvre Accord to stabilize exchange rates at more sustainable levels when the dollar had come down.

In view of the events of the past three years, I think we have few illusions in Europe as to the efficiency of this process in the G-7. We note, in particular, that the two other regions at times have allowed domestic considerations to override observance of the ground rules for stable exchange rates.

The first and most easily justifiable example was the post-stock-market-crash period of 1987, when the U.S. authorities let interest rates fall to check the decline in the stock market.

A second, somewhat more worrisome example, arose in 1988-89, when a relative rise in U.S. interest rates pushed up the dollar and led to a slow-down of the international adjustment process.

The third and most recent example of a conflict between domestic and external considerations concerns the weakness of the yen. In recent months, the yen began its decline vis-à-vis the dollar, and even more vis-à-vis the EMS currencies. We would tend to see that as a result of a lengthy period of somewhat overexpansionary monetary policies in Japan, prompted by fears of a fall in the stock market in Tokyo. But as long as this has been seen by the G-7 participants as primarily a Japanese concern, no effort to apply the Louvre
reflect that we have developed within the European Community, more efficient and reassuring mechanisms for dealing permanently with impediments to trade in goods and services and to foreign direct investments than our Trilateral partners. Our approach is based on a systematic and comprehensive effort to assure access to each other’s markets within a framework adopted by majority decisions in the Council of Ministers. Most of us had no doubt underestimated the impact of the new procedures that were embodied in the Single Act—the revision to the Rome Treaty—that came into force in 1987. An unexpected momentum has developed.

It is striking that the European Community has for its own framework of policy coordination opted for a radically more ambitious framework than the G-7—that is, to move towards accelerated pooling of sovereignty over economic policy. The main element here, beyond the creation of the Single Market, is the proposal for an Economic and Monetary Union.

I can understand if American and Japanese participants will ask themselves, “Will EMU really come about?” “Will not German unification put a widening of the European Communities first on the agenda, rather than a deepening of what is already a fairly tight economic policy framework?”

In 1986, we adopted the Single Act—which restated the aim of Economic and Monetary Union in Europe. Two years later, capital movements were liberalized, or at least a timetable was set for liberalizing capital improvements completely by the middle of this year for eight of the 12 member states. With that major precondition on the part of Germany resolved—that is, the willingness of other, weaker currency countries to expose their policies to the judgement of financial markets—the road was cleared for resumed discussion of the road which Monetary and Economic Union could take. A report was prepared by a Committee of central bank governors, chaired by the President of the European Commission, in 1989, and subsequently followed up by decisions in the European Council.

What is significant is not so much what happens in the present year, when the first stage gets underway—that is essentially a continuation, although somewhat intensified compared to what we have seen in the past. The important thing is that an intergovernmental conference is being convened to discuss Economic and Monetary Union and give it treaty form; and that conference is starting in December of this year.

Substantial disagreements remain between countries on two crucial issues. One is the nature of the central banking institution which is to manage a joint monetary policy. But there—with the possible exception of the United Kingdom—views are not very far apart. I would underline that that is also the case in Germany, since the proposals that have been made reflect fairly closely the framework of policy that exists in the Federal Republic of Germany. There is some continuity between the better part of our experience in the 1980s and what is now being proposed.

The second area of conflict—because the pooling of sovereignty there is more painful—is that of fiscal policy, where the Community has certainly not come to a clear position as to whether some rules for macro-economic policy coordination should be adopted, or whether more informal procedures would still be sufficient. The past experience of the Community suggests that with the tight exchange rate commitments, much of the fiscal policy coordination is implicitly taken care of. But there is a suspicion that that may not be enough, given the divergence of starting positions.

Finally, will there be a delay in the movement towards Economic and Monetary Union because of German reunification? I think there are three reasons for saying that there will be no such delays.

The first is that the expansion of the economy in Germany will give added growth momentum in Europe and will better equilibrate current account imbalances that have been the main threat to the stability within the Community. There are no reliable estimates at the moment, but informal estimates suggest that the German surplus could come down from about five percent of GNP to maybe two percent over the next two to three years. That creates a better balance within Europe.

Second, the mere fact that Germany has proposed a monetary union with East Germany, despite what differences there are between the two situations, does...
Accord has been forthcoming, most recently in the meeting of finance ministers earlier this month. Are we better or worse off for the relatively vague commitment to international coordination and exchange rate stability that we see in the G-7? Does the system induce better domestic policies? I think the European view would be: yes it does, though marginally. Without it we would have had still sharper fluctuations in the major exchange rates with associated costs. Short-term fluctuations may not be too harmful in themselves, but the risks that they develop into uncontrollably sharp movements, or that they persist over long periods and lead to severe misalignments, is a serious one.

A preferable scenario, however, to focussing narrowly on exchange rates is one that comprises two additional elements.

The first is that a wider range of policies be considered. In particular, the reduction of the U.S. deficit should be brought again to the forefront. It is not up to us to give advice on the composition of public expenditures in the United States, but it would be worrisome if the “peace dividend” that may result from the cuts in the U.S. defense budget were entirely diverted to other expenditures rather than used, in part, either for an improvement of the budget deficit or for more moderate tax increases than would otherwise have been necessary. It is a source of continued amazement to non-Americans that the modest tax increases which would be required to remove the financial risks of the U.S. deficit are so difficult to contemplate for a country which has already reduced its taxes so far, not only relative to other countries, but also relative to its own previous standards. The risk of not increasing revenues at some point over the next couple of years is that the shift between savings and investment that we see in other parts of the world—in Europe because of the investment boom there; in Japan possibly because of lower savings than in the past—may finally force up interest rates more sharply in the United States and provoke financial instability.

The second lesson, based to some extent on the EMS experience, is that monetary and exchange rate cooperation can be very efficient, provided it is really explicit. Broad, undeclared zones for exchange rates are not in themselves adequate to bring much stability. But it is possible, even without much more explicit policy coordination in other areas, to develop a positive synergy between the market participants and the authorities. The former do come to respect the commitments of the authorities, even in a situation of highly mobile capital, after some learning period. That is what we have been able to observe in Europe. That learning period has not even begun at the G-7 level, and hence intervention policies and monetary coordination—though not without effect, and beneficial effect—remain too weak to assure more stable exchange rates.

I would not want to sound too alarmist. From a European point of view, trade with the United States and Japan is simply not that important for the European countries for exchange rate fluctuations in the dollar to greatly upset output growth and inflation in our part of the world, nor do fluctuations in the dollar any longer cause major tensions among our currencies. In this sense, we look at the global currency instability more with concern than with alarm; and most European policymakers would say that the main contribution Europe could make to global balance is to keep a high rate of non-inflationary growth within Europe.

The mixture of structural reforms and macroeconomic policies in Europe—some people, particularly in Germany, like to call them “supply-friendly-expansionary policies”—have contributed to better balance in the world economy, in particular, to the reduction of the U.S. trade deficit. Since 1986, 40-45 percent of the improvement in the U.S. trade balance has occurred in trade with the European Communities. More contributions to correction of the U.S. deficit can and should be expected from Europe, as European countries continue to grow faster than the United States, and to the extent that some further appreciation of European currencies vis-à-vis the dollar is in store. A collective European deficit on current account is, indeed, likely for the first half of the 1990s.

**ECONOMIC AND MONETARY UNION IN THE EUROPEAN COMMUNITY**

As we listened to the U.S.-Japanese debate on the Structural Impediments Initiative, we cannot help but
make it more difficult for Germany to resist the notion of monetary union in relation to its European partners. In one case, the German Bundesbank will be in charge of policy; in the other case, it will have to share in a European institution. But the basic argument about the benefits of monetary union has been stated by the German government.

Third, the German currency could temporarily become more uncertain, slightly more inflationary, and that creates also an interest in Germany in having its currency more firmly anchored to other European currencies than in the past.

There is also, of course, a political argument—that in political terms, Germany may temporarily find it more difficult to set aside the energy for moving ahead on Economic and Monetary Union. But the tendency in Europe is to take leading German politicians for their word—that they will, in fact, do both.

★ Niels Thygesen is Professor of Economics at the Economic Institute of Copenhagen University.
HY AM I HERE ADDRESSING YOU tonight? Let me confess a little secret—I have a hard time saying “No.” So when David Rockefeller asked me to speak to you tonight, of course, I had to say “Yes.”

More importantly, I wanted to say “Yes” because I believe that we are entering a new era of world history in which those of us in international business must play a more active role in public policy debates.

I came to Washington by way of Eastern Europe. We do not yet know whether the new governments of Eastern Europe will succeed in establishing stable democracies and free market economies, but we do know that the old governments failed and disappeared, and that communism is discredited throughout that region as an economic system or political force. Indeed, even the Soviet Union is undertaking steps towards political and economic reform.

We also know that the political change in the East has profound global implications. For more than four decades, we have taken for granted the cold war rivalry as an almost permanent feature of international life. In Japan and much of Western Europe, we accepted the need to host foreign troops and participate in security alliances. The Americans accepted the need to make broad overseas commitments and support large peace-time forces. Even much of the political rationale for strengthening our economic cooperation had a security base; it was through the economic and political unity of the West that we could overcome the threat from the East.

The cold war in its old form may be over, but in the 1990s we face the, perhaps, even more difficult challenge of winning the peace. We must convince our publics to support an even greater degree of economic adjustment and cooperation, even though the security argument for such cooperation will be lessened. We have a tremendous task in helping the new democracies of Eastern Europe consolidate their positions and renovate economies that have been distorted by decades of communism. We have the continuing challenges of helping developing countries and dealing with the threat to our natural environment.
The challenges of the 1990s and 21st century are more than ever economic in nature. The roles of industry and of technology will be critical. The role of Japan, as the world's second largest economy, will be critical. Therefore, as a Japanese industrialist involved in frontier technologies, I cannot be silent.

NEW TRIALOGUES

The new and favorable political environment does not mean that we Tri-lateralists can declare victory and go home. The role of triadologue—among governments and in the private sector—becomes even more important. President George Bush, after his meeting last month with Prime Minister Toshiki Kaifu, pointed this out. In remarks to the press, he urged the strengthening of what he called “the political triadologue among the United States, Japan, and our European allies.” His terminology and his previous membership in this Commission cannot have been just a coincidence.

President Bush was thinking of triadologue in geographical terms. He was saying that the reconstruction of Eastern Europe, the economic and social development of the Third World, and a variety of other global challenges are simply beyond the capabilities of any one region or nation to handle. Japan must play a fuller role in meeting these tasks. It cannot simply be an Asian power. Western Europe cannot limit itself to a primary role in Eastern Europe or Africa. The United States must continue to be a global power, in cooperation with its Triilateral partners.

The vision of trilateralism of the early 1970s thus remains even more valid in the world of the 1990s. In my remarks, I want to talk about how the geographical triadologue among our regions can be reinforced by three other important kinds of “triadologue.” The first of these is the triadologue between the business community, politicians, and government civil servants. The second triadologue is between business, labor, and the community. And at the end of my remarks, I want to suggest a third triadologue among politicians, business leaders, and technologists.

Turning to the first of these triadologues, I am concerned about what I regard as fundamental differences in the way in which leaders of the international business community, politicians, and the bureaucracy view the world. Very powerful economic forces compel leaders of the business community to think globally and act globally. Very powerful electoral pressures force politicians to think primarily in terms of local constituencies. The government bureaucracy lies in between; it has to ensure that local interests are accommodated within a national policy framework, but it exists primarily to defend what is then defined as “the national interest.”

The global forces acting on the business community are obvious. Multinational corporations, such as Sony, must operate on the basis of a global strategy. Our products are manufactured in more than 70 factories in 16 countries, and sold in 160 countries. Our 100,000 employees are from almost as many countries. Only a half of them are Japanese. Our shareholders, who are our ultimate bosses, are also from around the globe. And our stock is traded on 23 exchanges worldwide.

Sony and the other multinational companies that are responsible for the tremendous growth of international trade and capital flow are both the agents creating a borderless world economy and also the beneficiaries of such an economy. But we are in constant tension with politicians and bureaucracies that are trying to reinforce rather than tear down borders. We are also in tension with those in the business community who have not internationalized, and who look to protection or subsidies for survival. As the international economy has become more integrated, those threatened by internationalism have become more nationalistic. This is shown in increased pressures for managed trade, trading blocs, and local content rules, all of which reduce efficiency and growth.

The suppliers, customers, owners, and labor force—or “constituents,” if you will—of a multinational company are global, but those to whom our political leaders and bureaucrats are answerable are not. No matter how active a politician may be in international affairs, no matter how many friends he or she may have among the political elites around the world, no matter that he or she may be a member of the Tri-lateral Commission, political survival depends upon the continued favor of voters in the home district.
These voters are unlikely to believe in a borderless world economy. They want their politicians to support their local industries and interests.

The challenge for politicians and for bureaucrats, therefore, must be to reconcile the demands of an interdependent world economy with those of the local constituency or nation. This process involves developing globally-minded constituents. International business has a responsibility to help change the political climate at the local level by fostering what I call “local globalization.” Our efforts take place through the second triad, that between management, labor and the community.

GLOBAL LOCALIZATION
AND LOCAL GLOBALIZATION

International companies must be an active and vital part of the local community. In 1988, I coined the slogan “global localization” to refer to the process by which multinational corporations should develop strategies at the global level, and then allow local operations the autonomy and decision-making power to tailor these strategies to suit unique local requirements. With an understanding of global directions as a base, local managers must then make operational decisions that relate meaningfully to the labor forces and the communities on a local level. Localization requires accommodations with local customs and work habits. It requires a comfortable degree of autonomy for the local factory or office. It means working directly with local businesses and community organizations to be a good corporate citizen in boosting the local economy and enriching social and cultural life. It means involvement with United Way, the PTA, and other citizen groups. The challenge of global localization is to make the locality a meaningful and vital part of a global corporate strategy.

Foreign investment plays a vital role in the localization of companies and in the globalization of localities. Too often those of us who speak about the benefits of foreign investment have cast our arguments purely in economic terms. Of course, foreign investments increase economic efficiency, transfer capital and technology, and increase incomes in the host localities. But there is also a very important cultural dimension that should not be overlooked.

Inevitably, the investment processes change the outlook of both the corporations making the investments and the host communities. Japanese companies have been behind their European and North American counterparts in multinationalizing their production. Now that they are moving very rapidly in this direction, the attitudes and corporate cultures in the home offices in Japan—in a wide variety of often unforeseen ways, ranging from marketing techniques to the treatment of female employees—are changing.

Foreign investments also help globalization local attitudes by creating an interest in the foreign investor’s country. For example, surveys of U.S. States in which significant Japanese investments have taken place have shown that this investment is associated with a rise in interest in the Japanese language, culture, and travel to Japan. We should appreciate and encourage these interests.

GLOBALIZING JAPAN

Foreign investment plays a tremendous role in the process both of global localization and also that of local globalization. This process of international integration is particularly important for Japan. For all its economic importance, Japan is still a relative newcomer to the world of advanced democracies. It is also the only Asian member. Many Japanese are still unsure whether we can really be accepted in this club and are sensitive to any sign of discrimination. For this reason, we react very strongly to the so-called “revisionists,” who argue that the Japanese economic system is so different that it cannot be accommodated within the existing rules of the international system. The emphasis in the international community on economic coordination and cooperation, therefore, provides Japan with an opportunity to further its integration into the world system. When the key task of the Western alliance was perceived primarily in military-security terms, Japan could only be on the margin of the dialogue. Now that the key tasks, including security issues, are defined more in terms of economic policy and technology, Japan becomes central. Does Japan, however, have a sufficiently internationalized outlook to become a full partner with the other democratic industrialized countries in meeting these expectations?
I believe that Japan has a long way to go before it is truly globalized. Our largest corporations are becoming global citizens. But much of our business community is still local in its attitude. Most of our bureaucrats still think more in terms of resisting foreign demands than in opening up Japan for the enlightened self-interest of Japan. And most of our politicians, like those of many other countries, think in constituency-oriented terms. All countries, as part of the integration process, need structural reforms—Japan, perhaps, most of all.

What is called "Japan bashing" is usually not helpful. It reinforces Japanese fears of discrimination and distracts attention away from the merit of policy changes and toward nationalistic issues. It would be helpful for the international community to take advantage of increased pluralism within Japanese society and work constructively with those parts of Japan that are already internationalized. That is the route that the Trilateral Commission has been taking, and I believe it is a very appropriate and positive one.

In this context, let me return to my comment at the beginning of this talk about my weakness for saying "Yes." I have argued that for Japan to be an effective player in the international community it needs to be able to say "No" as well as "Yes." In other words, Japan needs to have a clear sense of its interests as a member of the international community and to conduct its policies accordingly. This is a view that I believe is widely shared among Japanese internationalists.

Japan is a beneficiary of freer trade. Therefore, we need to say "No" to the global society who want trade barriers, and we should say "No" to external interests who argue for various forms of managed trade to promote their interests. We need to say "No" to technocrats who want to restrict technology flows or use technology as a political bargaining chip. Japan and the world benefit from the free flow of technology.

THE ROLE OF TECHNOLOGY
At the same time, I want to emphasize where we should say "Yes." I believe that I have been successful as an entrepreneur and industrialist by saying "Yes," even when technologies or commercial opportunities were considered uncertain.

I am a techno-optimist. I believe that many new technologies basically create their own markets. I believe that the expansion of communications technology was one of the most powerful forces leading to political change in Eastern Europe, and that it may be the ultimate solution to the problem of narrow localisms. I believe that many other international problems, particularly the environment problem, can be resolved through the application of new technologies.

If our energy situation improved in the 1980s, it was not because we reduced our standard of living, but because we developed new semiconductor, recycling and other technologies that allowed us to enjoy an even higher quality of living with less use of energy and natural resources. In most of the continent of Asia, with half of the world's population, there is now little fear of famine. This is not because population has been reduced, but food production has increased through the application of new technologies.

This leads me to suggest one more dialogue—a dialogue among politicians, business people, and "technologists." Again, this is not a geographic dialogue, but a dialogue of internationally-minded individuals who are committed to improving the human condition. Technologist is a term that we use to describe our scientists and engineers, who are seeking to develop ways to apply science for the enrichment of human life. I believe such a dialogue is essential to deal with the environmental, resource and development challenges we face in the coming decades. These are challenges that know no national boundaries and affect us all. The solutions require technological progress, but technology is not simply a matter of discovery; it requires government policies that encourage innovation and business vision and marketing skills. It is only through such a dialogue that we can come up with proposals that are politically realistic, commercially feasible, and technologically attainable.

I believe that the Trilateral Commission is a valuable forum for sustaining this and other dialogues. We are trilateral not simply in our geographical representation, but also in our professional backgrounds. In particular, the Trilateral Commission can be the foundation for the new "dialogue" in which technologists join our efforts to solve the multifaceted questions that will be the central issues of the 21st century—how to ensure that the six billion or more people living on this planet by then can all enjoy high standards of living without ruining our environment or depleting our resource base to the detriment of future generations. We need to pool our efforts and technology at the local, national and international level in order to meet these challenges. Dialogue, in this sense, is not limited to three partners; it is a way of suggesting that dialogue encompasses everyone.

★ Akio Morita is Chairman and Chief Executive Officer of Sony Corporation
Scenes From the Plenary

Speaker of the House Thomas S. Foley
welcoming participants to
a dinner in the Capitol Building
Task Force Reports and Related Speeches
"Beyond Interdependence: The Meshing of the World’s Economy and the Earth’s Ecology" is the title of one of three task force reports to the Trilateral Commission discussed in draft form in Washington, D.C. The report was prepared by Jim MacNeill, Pieter Winsemiuis and Taizo Yakushiji. MacNeill is a Senior Fellow at the Institute for Research on Public Policy in Ottawa and Secretary General of the World Commission on Environment and Development (Brundtland Commission). Winsemiuis, former Dutch Minister of Housing, Physical Planning and Environment, is a Director of McKinsey & Company in Amsterdam. Yakushiji is a Professor of Technology and International Relations at the Graduate School of Policy Science of Saitama University in Japan.

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

The OECD nations bear a special responsibility to lead initiatives to reduce rates of climate change, to reverse deforestation and soil and species loss, and to modify ecologically perverse behavior. But what initiatives appear to hold the most promise for real action? Current efforts to strengthen and reform existing institutions and to negotiate major new conventions must be supported but, given the time frames involved, we favor a parallel pluralistic approach that would seize opportunities for concrete action as they arise—unilateral national action, bilateral action, action by small self-selected groups of nations, regional and global deals. This approach would take advantage of differences between nations and target groups to effect bargains that could improve the situation of all the parties involved.

OECD nations should substantially increase R&D and program funding for energy efficiency and renewable energy resources. Putting such measures into an international agreement, enacted by each nation conditionally on all (or nearly all) others doing the same, would remove the competitiveness obstacle associated with any producing nation moving first.

OECD nations should move quickly to marshal sufficient investment for bargains on global warming. The most frequently proposed mechanism is an international fund. A large number of proposals have been made to finance the fund through various taxes or levies, including a "climate protection tax" related to the carbon content of fuels, levies on a mix of pollutants, on the value of international trade, on international passenger and freight transport, and on carbon, sulphur, nitrous oxides and other air pollutants. Several proposals have been made to create an international regime within which shares or permits to emit carbon would be granted to national governments and could be marketed freely between them. The "simplest" solution for politicians in the OECD nations is undoubtedly to channel a fixed percentage of GNP into a fund....

The greatest weakness in the existing institutional framework for environment and development exists at the national and local levels, especially in developing countries. There is an urgent need to build viable domestic institutions for sustainable development. The most pressing need in the areas of environmental protection and resource management is to
strengthen the scientific capacity needed to assess changes in the environment. Scientists are on the front line in the battle for a sustainable planet. The most pressing need to ensure that future development is sustainable is to increase the capacity of central economic, trade and sectoral agencies to assess the impact of their policies and budgets on the resource base for development, and to act on those assessments.

Developing this institutional capacity should be the subject of priority bargains between OECD bilateral development assistance agencies and institutions in selected developing countries....

Nations should continue negotiations on an international agreement to cap and reduce CO\textsuperscript{2} emissions. The goal should be a substantive (i.e., not an empty) "framework convention," which would be negotiated in parallel with, and signed at the same time as, action protocols. The convention should contain a clear commitment to the goal of stabilizing GHG [greenhouse gases] concentrations in the atmosphere, and a set of phased targets to achieve that goal. The protocols would pick up the agreed targets and set out the agreed means to achieve them. The convention should not be signed unless and until at least a protocol on energy emissions and one on deforestation could be signed with it. The existing Montreal Protocol (strengthened by the June, 1990 meeting in London) could also be folded under the convention. Later protocols should provide for appropriate measures concerning the hitherto uncharted territory of methane and nitrous-oxide emissions.

The convention should also lay out the foundations for a simple but effective mechanism to provide leadership, overall political direction and broad coordination of work under the convention. It might be called a World Forum on Environment and Development (WEDF). It would bring together ministers representing the signatories to the convention at least once a year to evaluate progress and decide on necessary actions. This could take the form of a "summit" of Ministers of Resources, Environment, Energy, and Finance, from North and South, to discuss progress toward global sustainability. The WEDF would need to be supported by a small permanent bureau. A group of senior officials would also be essential to prepare policy recommendations and to set up channels for the implementation of its decisions. UNEP and the WMO might perform these roles. The intergovernmental Panel on Climate Change (IPCC), which involves senior officials from participating governments, could undertake scientific assessments and analysis of policy options on a continuing basis. After completing its original mandate, the IPCC could also be retained as a body for developing and funding joint research projects on climate and the environment. We also see a larger role for a redirected World Bank as the pre-eminent institution for collecting and distributing large funds and for preparing and managing multilateral bargains. With a modified charter, the World Bank could perhaps grow into the role of serving as the international clearinghouse.

OECD nations should attempt to achieve a substantive frame-
It is a particular pleasure to be meeting members of the Trilateral Commission as the world celebrates Earth Day. The Commission was founded on the need for modern democracies to share their political and economic concerns. It recognizes that, in the past half-century, the developed nations have changed the world: we live longer, and better, than ever before in human history. But we have achieved this status at the expense of the environment.

Earth Day is a powerful reminder that the world, in its turn, is changing us: threats to the environment now endanger our proudest achievements and natural systems on which life depends. Difficult choices lie ahead. Some will take hard cash—a great deal of it. Even more than money, however, all of them will require enormous acts of national and international will.

In recent years, we have begun to look realistically at the world’s natural resources. As a result, we have had to discard our belief that “Mother Nature” is benign, endlessly tolerant and indestructible. We now recognize that nature is tightly interwoven, delicately balanced, highly sensitive, and unforgiving.

At the time of the first Earth Day, in 1970, we worried about what we thought were local issues: effluents, black smoke from factories, oil spills at sea, and the effects of pesticides. However, within ten years, we had to recognize that pollution was a national or continental problem. By the time we learned that DDT used in South America and elsewhere was being discovered in fish in the Arctic, it became clear that environmental issues were not simply local, or even national, but global.

CFCS AND MONTREAL PROTOCOL
That lesson was certainly brought home by the case of CFCS, and the effect of this family of chemicals on the stratospheric ozone layer. Our experience in dealing with CFCS marked the first time the world community acted together to prevent an environmental problem rather than just react to a crisis. And it was clearly essential to our success:
First, to have a consensus in the scientific community;
Second, to have all the major nations of the world on the same side;
Third, to take immediate steps in the short term; and
Fourth, to incorporate the institutional machinery necessary to enable the world community to take advantage of new information and to impose tougher measures as required.

These were the ingredients that went into the 1987 Montreal Protocol. The Montreal Protocol is noteworthy as an international example of decision-making in the face of scientific and economic uncertainty. Persuasive evidence changed public and political attitudes towards certain crucial chemical compounds, the scientific effects of which are still not fully understood.

This June, nations of the world will convene in London, where proposals will be made to completely phase-out restricted CFCs, to add more chemicals to those listed for control under the Montreal Protocol and, importantly, to come to grips for the first time with the complex issue of technology transfers from the developed to the developing world.

In spite of all our efforts, some CFCs will remain in the atmosphere for 200 years. The ozone layer will not be as thick as it was in the 1970s until two centuries after CFCs are eliminated.

GLOBAL WARMING AND CLIMATE CHANGE
The ozone layer issue is important because it is a notable success containing several lessons concerning how we deal with the infinitely more complex problems of climate change.

This week in Washington, policy makers from 17 countries convened to discuss the issue of global warming and, more generally, global environmental change. Importantly, nations agreed on the necessity for action in the face of uncertainty. As President Bush said in his closing remarks, "research is no substitute for action." And action is the key word. We must act now!

First, an extraordinary level of international cooperation will be required. New approaches on a scale and scope that until now have been characteristic of peace initiatives are in order. At the Hague Conference last year, 24 heads of government and heads of state recognized that we may require an international authority granted the power to impose measures on sovereign states. It was a clear acknowledgement of the need for states to examine the conventional and traditional concept of sovereignty in order to protect the global environment.

Second, any nation's ability to influence the shape of the international agenda will be based upon actions it takes domestically. We all know that our citizens are committed in principle to strong action, both domestically and internationally. In Canada, we are engaged in an ambitious project to convert principles into practices. Over the next few months, we are sitting down with Canadians from all walks of life to create a national Green Plan: an action plan to set the course for dealing with global change. We will commit ourselves to a plan of action which will contain targets and schedules.

The action we are planning will:
1. Improve energy conservation and efficiency, including standards for appliances, automobiles and new and retrofitted buildings.
2. Promote alternative energy sources, such as biomass and environmentally-preferred fossil fuels.
3. Invest in the development and demonstration of new technologies.
4. Establish new forest management practices to increase carbon sinks.
5. Propose educational and promotional initiatives to encourage green choices by the consumer, the commuter, the homeowner and, thereby, the manufacturing and service sectors.
6. Invest in a comprehensive research program which has already produced the first of the next generation of global circulation models.

In addition, we have already committed ourselves to the phase-out by 1999 of CFCs, the second-most important greenhouse gas. We are also finalizing a comprehensive action plan to control tropospheric...
ozone, which likewise contributes to the greenhouse effect.

The recent White House Conference on Global Warming was one in a continuum of such meetings, each of which takes us a step closer to the important United Nations Conference on Sustainable Development to be held in São Paulo, Brazil, 25 months from now. The widely held international hope for that conference is the signing of a convention for the protection of the atmosphere and significant progress on protocols under that convention.

We were privileged to act as host, in Toronto in 1988, of the Conference on the Changing Atmosphere, to be signatories at The Hague and Noordwijk meetings and to be a full participant in the U.N. Intergovernmental Panel on Climate Change, the IPCC. We have high expectations for the IPCC's August meeting in Stockholm. We look forward to a clear statement from the world's scientific community to provide the basis for deliberate and immediate commitments to controls on greenhouse gases. We need urgently the sort of scientific consensus which will energize the political will of all nations. We believe that countries should be prepared to describe those commitments at the Second World Climate Conference in Geneva in November.

We also hope that the IPCC will provide the support for the much tougher decisions that will have to be taken to be sure that these immediate improvements are maintained and strengthened over the longer term. That will require the sort of economic, social and scientific research that was the subject of the White House Conference on Global Change. Canada suggested that the IPCC take note of the findings of the White House Conference and make recommendations that will allow the tougher decisions on longer-term protocols to be advanced in the preparations for the 1992 U.N Conference in Brazil.

C A N A D A - U . S . I S S U E S
Of course, there are many other environmental issues being addressed by decision-makers in North America.

Here in the United States, the Clean Air Bill now before Congress holds the promise of significant progress on emissions that create air, soil and water quality problems on both sides of our common border.

Of particular interest to Canada, the Clean Air Bill will, if passed as written, meet Canada's demand for a 50 percent reduction in the trans-boundary flow of acid rain-causing gases. And it will significantly reduce airborne chemicals that are a major source of toxic pollution in the Great Lakes.

There is no excuse for two wealthy nations, as ours, to tolerate today's unacceptable conditions in the Great Lakes. With the problem of acid rain now apparently in retreat, I hope we may move to put the ultimate goal of zero toxics discharge into the Great Lakes at the top of our bilateral environmental agenda.

D E V E L O P I N G C O U N T R I E S
Our domestic experience with these problems has taught us some important lessons which we think will be valuable to less developed nations as they plan their futures. We must work with recipients of aid and assistance programs to take into account the environmental implications of any initiative. Clearly, we cannot impose standards on others; but we must include environmental factors in evaluating aid, and encourage recipient countries to do the same as part of the application process and in their own policies and programs.

In recognizing the need to act in concert, we must be sensitive to the gap between developed and developing countries—which is so clear in the United Nations report, Our Common Future. Unless we, in the developed nations, can demonstrate the seriousness of our commitment to environmental integrity, we will have to stand aside as countries such as China and India develop energy-hungry industries based on coal-burning fuels. These could produce quantities of greenhouse gases that will undermine any conservation or clean-up targets we may establish.

Given the urgency of the situation, developed countries must demonstrate that they are, indeed, seriously committed to cleaning up and protecting the environment.

C H A N G I N G D E C I S I O N M A K I N G I N S T I T U T I O N S
We are convinced that the magnitude of the current
environmental problems requires foremost the prevention of pollution, which necessitates changing the decision-making process itself. To do that, three key reforms are required: better inputs to decision-making; changing the decision-making institutions; and creating broadly based partnerships domestically and internationally.

With respect to better inputs to decision-making, better science is needed to measure and define new problems and to assist in dealing with old ones. Second, people need accurate environmental information, systematically presented and easily available. Only then will they have the basis for making decisions—in groups, organizations, or as individuals. Third, in order to evaluate the information, they must be environmentally educated, both in the formal school system and outside it. Fourth, governments must enact and enforce effective laws that protect public health and environmental resources. And, finally, governments must establish economic incentives or instruments that reflect environmental costs. In that way, decision-makers will take the environmental consequences of their actions into account.

Ultimately, governments and peoples must understand that, because the environment is global, environmental protection must be global. That will be possible only if it is built on strong international partnerships, both bilateral and multilateral. Organizations such as the United Nations Environment Programme and the World Meteorological Organization will be effective instruments of change—provided the programs and agreements that are developed are supported by all countries.

Obviously, we will have to continue to strengthen international law. This priority will be addressed in upcoming conventions on climate change, biological diversity and protection of the marine environment.

Twenty years ago, a call for global legislation on issues such as greenhouse gas emissions would not have been taken very seriously. In 1970, reasonable people could still debate the extent and seriousness of the environmental damage that was beginning to raise public concerns. Those questions have now been answered, or are being answered, and the results are not comforting. We can forgive ourselves for the mistakes of the past, on the grounds that we were unaware of the true nature of the world's environmental problems. But, because we will be accountable in the future, we must be scrupulous in assessing and seeking solutions to our present problems.

Clearly, one of the key considerations facing those of us here, on this Earth Day 1990, is the degree to which we, and governments around the world, are prepared to enter a new era of environmental co-operation—the next, the most urgent frontier of international relations.

★ Lucien Bouchard was Canadian Minister of Environment at the time he delivered these remarks.
"Latin America at a Crossroads: The Challenge for the Trilateral Countries" is the title of one of the other task force reports to the Trilateral Commission discussed in draft form in Washington, D.C. The report was prepared by George W. Landau, Julio Feo and Akio Hosono. Landau, former U.S. Ambassador to Venezuela and Chile, is President of the Americas Society. Feo, former Chief of Staff to Prime Minister Felipe González, is Chairman of Consultores de Comunicacion y Dirección in Madrid. Hosono is Chairman of the Japan Association for Latin American Studies and Professor at The University of Tsukuba.

The following are excerpts from the introduction and concluding chapters of the report:

INTRODUCTION

The purpose of this report is to assess the present and future importance of the Latin American-Caribbean region to the remainder of the international system and adduce the resultant policy implications for the Trilateral countries. Toward this ambitious end, it will be necessary to describe the present circumstances of the region and identify the salient trends which are transforming it. Then the stakes and principal issues for the industrial democracies—singly and in concert—require assessment. Finally, reasonably specific policymaking imperatives for the United States, Canada, the E.C. countries and Japan (and, implicitly, for the nations of the region) must be distilled. The purpose of this effort is to help Trilateral policymakers find a place for the societies of Latin America and the Caribbean in the future international order—one which offers the maximum benefits and entails the fewest difficulties, both for them and for the peoples of the industrialized democracies.

...Latin America stands at a portentous crossroads. Given both our direct stakes in the region and the considerable role that it will surely play in future world affairs, the Trilateral nations can not afford to be oblivious to the path which is chosen.

TOWARD THE FUTURE: RECOMMENDATIONS FOR THE TRILATERAL COUNTRIES

The achievement and preservation of stable, functional democracy throughout the region is the basic political goal shared by the Trilateral countries and the peoples of Latin America and the Caribbean. And unquestionable, effective support for democracy must comprise the cornerstone of any positive and successful policy toward the region. The promotion and sustenance of regional democracy can not be undertaken principally from abroad—but must count basically on the efforts of local societies and leaders. Still, there are certain measures that the industrialized democracies can take to encourage and support regional efforts....

It is undoubtedly in the economic area where the most hard and potentially profitable work lies before us—not only to surmount the real and pressing dangers that are all too apparent, but also to realize bright opportunities that may presently seem more obscure. The new regional democracies need to function economically on behalf of their societies or they will fail. If these economies perform productively, however, the result would be of great benefit to the economic interests and
political objectives of the industrialized democracies.

We must realistically appreciate the fact that the keys to resolution of the region's problems do not rest in any foreign hands. Old-fashioned statist economic policies, excessive economic nationalism, bloated and inefficient bureaucracies, imprudent borrowing, wasteful spending and outright corruption did much to land the nations of the region in the circumstances in which they now find themselves.... There are, however, more and more exceptions to this pattern.

...[T]he Trilateral countries should pursue economic policies that are more cognizant of the opportunities which the region offers for mutually beneficial interaction and more helpful to prospects for the region's prompt economic recovery and future advance.... As the economies of the Trilateral countries are of a basically liberal stripe, it is not our governments which will allocate resources of the kind and quantity that the nations of the region require. Only the private sector disposes of the capital, technology and expertise that are truly necessary. And, in practice, the business community will only commit these resources to those countries which have created the conditions where they can be productively and profitably employed.

But governmental policies can help to catalyze and supplement this natural attraction between resources and opportunities. The governments of the Trilateral countries should take proper cognizance of the substantial opportunities in the Latin American arena—and that recognition should be reflected in policies toward debt, trade, investment, the environment, and foreign assistance....

Latin America and the Caribbean need to form a new and more effective regional security system, bolstered, as necessary, by a common effort on the part of the industrialized democracies. Such a system must offer real and practical prospects of general support for members of the local democratic community menaced by contemporary threats of terrorism, organized crime and subversion. And the Trilateral countries should be willing to back any such effort, to the extent that a consensus of regional actors thinks necessary. Serious thought about new institutional mechanisms to update or replace OAS-Rio Treaty arrangements is clearly in order—including consideration of some form of multinational police force....

Latin America is still an area of great promise—if the policies of its governments are pragmatic and if foreign nations demonstrate the interest that the current constellation of dangers and opportunities so fully warrants. What is required from the foreign policies of both parties is realism, respect, reciprocity—and detailed attention to finding the concrete trade-offs that solve existing problems and uncover bases for expanded, mutually beneficial cooperation in the future.

The published report is available from the New York, Paris and Tokyo offices of the Trilateral Commission.
Martin Feldstein offered his personal impressions on discussions that a number of Trilateral Commission members—and the authors of the task force report “Latin America at a Crossroads: The Challenge to the Trilateral Countries”—had with President Salinas and other leading Mexicans in Mexico City just before the Trilateral Commission annual meeting. His informal luncheon remarks follow:

Mexico is in the midst of a dramatic and a very positive change in economic policy. The current economic strategy of the government in Mexico is a complete reversal of the policies that they have been pursuing for the past several decades. Until a few years ago, the Mexican economy was basically a closed economy—they resisted imports and foreign investment. Mexico’s own domestic economic policies could be summarized as statist—a heavy role for the government, a heavy role for regulation, and increasing state ownership. Fiscal and monetary policies were irresponsible. By 1987, there was a 200 percent inflation rate in Mexico.

It was really only under President Salinas, beginning his term in late 1988, that we began to actually see a complete reversal of this economic strategy. Mexico is now outward-looking—there is a clear emphasis on expanding trade and encouraging foreign investment; there has been a dramatic reduction in the role of government in Mexico—there seems to be a new announcement every week, if not every day, in which the government says it is pulling back on its role in the economy; and they are pursuing monetary and fiscal policies that are creating much greater macro-economic stability.

Let me try in the few minutes that I have to back up these generalizations with a few details, and then comment very briefly on what I see as the prospects for the future. Perhaps I should offer this caveat. We heard a lot of statistics; I filtered some of them out; I cannot vouch for all of the so-called facts that I am about to assert. But I think there is no doubt about the overall impression that the Mexicans have created a major and a very favorable turnaround in their policies.
MACROECONOMIC STABILIZATION

The inflation rate was 200 percent in 1987. Last year, two years later, it was down to 20 percent. And it is essentially running at about that level in the first quarter of this year. Real GNP is now increasing; it is increasing faster than population. Real wages are rising. And employment is increasing.

How did they do it? How did they bring down the inflation rate so dramatically? The key, I would say, was a traditional package of tough fiscal and monetary and exchange rate measures.

The budget deficit, which a few years ago had been running on an inflation-adjusted basis at ten percent of GNP, was two percent of GNP last year. This year the aim is to bring it down to one percent of GNP. They did that by cutting government spending rather than by increasing the share of taxes. The Finance Minister said that the share of government spending in GNP has come down from 30 percent to less than 20 percent. Most of that was a cut-back in subsidies to private industry, but it was also a cut-back in government spending on so-called investment projects, which he characterized as often very wasteful.

In addition, monetary policy is very tight. Real interest rates are over 20 percent—which certainly poses a serious problem for business investment—but, nevertheless, business investment is expanding, and is expanding ten percent more this year than last year.

Finally, exchange rates were devalued in real terms a few years ago to stimulate the growth of exports of non-oil products, but now, more recently—as part of their anti-inflation campaign—they have been allowing the real value of the peso to increase slightly.

In addition to this traditional package of fiscal and monetary and exchange rate measures, they have adopted what they call a pact between government, industry and labor to limit increases in wages and prices. And no doubt that was of significant importance in their success in bringing down the inflation rate so much. They are now in the process of relaxing it; they have begun to take off controls on the prices of a number of products; and they made it clear that their goal was to eliminate this pact and go back to an ordinary market condition as quickly as possible.

This stabilization policy and the reduction in inflation pressures that resulted from it has provided the framework within which they could make major structural changes for the long term.

PRIVATIZATION AND TAX REFORM

Let me begin by commenting on the domestic policies, where the shift can be summarized with the word "privatization"—in other words, a reduction in the role of the government, and an increased role for the private sector.

I have already said how government spending as a share of GNP has come down—much of that because of what they described to us as "privatizing the private sector" (in other words, taking the government out of the subsidy business for private industry.) But they are also privatizing the public sector in a very dramatic way. They have sold off both of the nationalized airlines; they are in the process of selling the telephone system; they are planning to sell their steel industry; and they have sold hundreds of small businesses. They have made it clear that not only do they think that it is important for the government to get out of those activities, but they think that those resources can be better used in other ways.

They also have been able, as a result of cutting back on government spending, to bring down their maximum tax rates very substantially. Personal taxes are down from a maximum of 61 percent a few years ago, to 35 percent today. The corporate taxes are also down, from 43 percent to 35 percent. It is quite clear they were looking across the border, and want to bring their rates in line with U.S. rates.

They are beginning, in a rather remarkable way, to use the private sector to do things that we normally think of the public sector doing. Perhaps the most dramatic of these is in the area of toll-roads. Major highways are to be built by private firms; the private firms are to get a profitable use of tolls on those roads for a period of years; and then the roads will revert to the government.

Finally, there has been massive deregulation of the private sector. The licences that were required for many things in the past have simply been eliminated; and bureaucratic controls have been removed. They started in the area of transportation, where, as a result
of their deregulation, there has been a substantial contribution to the growth of GNP.

OPENNESS TO TRADE AND INVESTMENT

On the international side, the reforms have been even more impressive. Five years ago, imports were restricted by quotas, by complete prohibitions, and by high tariffs. There was very little access for foreign direct investment in Mexico. It was discouraged by the rules, and it was discouraged by the implementation—maybe I should say non-implementation—of those rules. Now, Mexico is very open to imports. There has been a complete turnaround from the philosophical emphasis on independence and autarchy that they had before. Maximum tariff rates have come down from 100 percent to a maximum of 20 percent, with an average of less than ten percent. Import licences have been essentially abolished. They were very proud of the fact that this year they expect to have about $3 billion worth of foreign direct investment—with good representation from Europe and Japan, as well as from the United States. The changing conditions there have brought with it a capital repatriation. Their estimate of that for last year was a little less than $3 billion. They have opened up the possibility of investment of foreign funds in their stock market, and that brought in nearly a billion dollars. That totals almost $7 billion of capital inflow from these voluntary private investment sources—long term, presumably, in many cases.

There is now a very serious discussion about establishing a free trade agreement with the United States, or with the United States and Canada. Now more than two-thirds of all Mexican trade is with our two countries north of the border. They left no doubt that the key people in the government really want to see a negotiation that leads to a free trade zone with the United States and Canada. They are backing away—to a certain extent—from publicly embracing this after the news leaks of a few weeks ago, because of a concern that internally that might seem as if they are being too avid in their desire to get into such an agreement with their North American trading partners.

Why are they interested in negotiating a free trade agreement? Partly in order to get the certainty that would come from such an agreement. But even more important than that, it would lock in the opening up of the Mexican economy in a way that would make it very hard—impossible, perhaps—for future administrations to reverse. One of the remarkable things about these economic reforms is that they have all been done essentially without legislation; they have all been done by Presidential decree. It is a continuation of the de la Madrid philosophy, but a radical change from the past—and Mexican history is replete with radical changes in economic and political philosophy from one President to the next.

REASONS FOR THE CHANGE IN MEXICAN POLICY

I asked myself why this dramatic reversal in Mexican policy had occurred.

I think the primary reason is that there is a realization that market forces are the best way to increase their standard of living after a decade in which the standard of living was coming down, not only because imports would lead to a higher range of choice for consumers and cheaper products, but also because it would force Mexican enterprises, which had lived in a kind of hothouse atmosphere, to become much more efficient.

In addition, they recognize that foreign direct investment is the best way to get long-term capital funds. It not only brings with it the money, but it brings with it technology; it brings with it access to foreign markets and marketing.

And the final push came with the collapse in the price of oil in 1986. It made it very clear to them that they could not depend upon their oil exports to finance their imports and to finance their current account deficit associated with debt service. At that point, they resolved that they would move toward an expansion of non-oil exports, which they have done very dramatically, and to do that they had to have competitive industries—industries that were not just hothouse industries protected by tariffs and domestic regulations.

EXTERNAL DEBT

I have only mentioned the word debt once. That is about as much as we heard about the debt problem when we were in Mexico. I think it was President Salinas who said that in Mexico they now talk about “life after debt.” They have put that problem behind
them. They have negotiated an agreement. It is not as favorable an agreement as some people wanted. They did not get any significant lowering of principal, but they did get lower interest rates, and they now have an annual debt service of about two percent of GNP. And they can, they hope, count on foreign direct investment and capital repatriation as the way in which they will finance that in the future.

**Prospects for the Future**

Let me conclude by commenting a little bit on the prospects for the future. I am quite optimistic about the prospects for Mexico. I do think they have a superb team there. We only got to talk on this visit with four or five of the most senior people, but if you go down another level, and another level still, within the Ministry of Finance or the Ministry of Planning and Budget, you find high levels of competence and a clear understanding of what they are trying to achieve. It is a logically coherent and a sound policy. I think if they succeed, real GNP of Mexico could double by the end of the decade. And Mexico could be a model for Latin America.

What are the risks? One risk is inflation. As I said, they succeeded in bringing it down from 200 percent to 20 percent, but 20 percent is a very unstable level. It is certainly possible that inflation could get out of hand, that the pact could collapse, and that inflation could begin to increase, which in turn would destabilize their financial markets.

Agriculture is another major problem, about which we heard very little, probably because they are not doing very much about it. It has been a long-neglected problem, and in a country with 85 million people, many of them peasants, it has to be an important risk for their future.

And finally, there is the issue of political support. As you know, in the Mexican system, the President only serves one term. And so he will serve until 1994, but cannot succeed himself. The PRI—the main party that produced him—will, if things continue according to tradition, be able, with a little help from the voters (but not too much help), to pick a successor for him. President Salinas will have the overwhelming say in that selection. In the list of candidates that are talked about are the people who are part of his team—the people who were with him when he was the Planning and Budget Minister and who are now in the key economic positions in the government.

On that basis, we could be optimistic; but it is not clear that the political situation in Mexico is going to continue to deliver transitions in this same way. It will depend on whether the unions continue to support the government in this new kind of economic policy. It will basically depend on whether the market-oriented policies succeed rapidly enough to generate an increase in real incomes for the overall population.

Despite those uncertainties, my best guess now is that we are going to see success; that there is reason to be optimistic; that Mexico is the best-managed economy now in Latin America, and that it has the most favorable prospects for success.

★ Martin Feldstein is George F. Baker Professor of Economics at Harvard University, President of the National Bureau of Economic Research and former Chairman of the President’s Council of Economic Advisors.
TASK FORCE REPORT
The Israeli-Palestinian Issue

GARRET FITZGERALD

"The Israeli-Palestinian Issue" is the title of one of the other task force reports to the Trilateral Commission discussed in draft form in Washington, D.C. The report was prepared by Garret FitzGerald, former Prime Minister of Ireland, is European Deputy Chairman of the Trilateral Commission.

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

NON-PROLIFERATION AND DISARMAMENT
The Trilateral countries could assist a possible peace process, as well as helping to reduce the danger to their own interests deriving from a renewal of inter-State conflict in the Middle East, by pursuing issues of non-proliferation of chemical, biological and atomic weapons and of conventional disarmament in the region, as well as of limitation of arms sales to the area. The extent to which peace in the region is currently endangered by past sales, both legal and illegal, of armaments and of technology cannot be exaggerated.
The arms producing countries in the industrial world as well as the Soviet Union, some of its former satellites, and China share responsibility for this. In particular, the development both of nuclear weapons and chemical weapons in the region would scarcely have been possible without access to Western materials and technology, and there has been a notable failure to face up to the fact of, and the implications of, these leakages both to Israel and to Arab States such as Iraq. Peace and stability in the Middle East will be difficult to ensure without a major international initiative designed to undo this damage—an initiative which may now be more readily achievable by agreement between East and West as a result of the greatly improved climate of international relations. Given the potential of China to de-stabilise the situation by selling more of its missiles to States in the area, the co-operation of that country would, however, be required in order to achieve real progress in the area. It is, perhaps, worth remarking in this connection that for some years past a U.N. Resolution in favour of the establishment of a nuclear-free zone in the Middle East has been adopted without a vote by the U.N. General Assembly, Israel having refrained from voting against it.
Accordingly, urgent action should now be taken to initiate linked nuclear, chemical and biological disarmament, control and verification measures in the Middle East. This is a matter which might appropriately be considered by the U.N. Security Council in view of the serious threat to peace now posed by the proliferation of these weapons.

HUMAN RIGHTS ISSUES
A pressing immediate issue of concern to the international community is that of human rights in the occupied territories....
There is a strong case for more concerted action by the United States, Europe and Japan through normal diplomatic contacts or through structures such as the G-7 meetings in support of less lethal methods of riot control in the occupied territories as well as for greater restraint in matters such as the blowing-up of dwellings alleged to have been used for attacks on Israeli soldiers....

AID
The international community’s willingness, despite new claims on its resources, to provide and to assist financially the implementation of a peace settlement may prove to be an important factor in the achievement and safeguarding of a settlement....
There should be a clear willingness within the international community to face this issue in order to ensure the peaceful evolution of an eventual Palestinian State.

U.S. IMMIGRATION LIBERALISATION
...A decision by the United States on humanitarian grounds to reduce or eliminate limitations on Soviet Jews entering the United States would reduce significantly tension in the occupied territories and amongst neighbouring Arab States arising from the restriction to a single option—Israel—of Jewish refugees from the Soviet Union. European countries could
also help by easing immigration restrictions for Soviet Jews.

SUMMING UP

Should the present attempt to initiate a dialogue between the parties collapse, urgent consideration ought to be given to supplementing action along the above lines by a major international initiative directed towards a resolution of the basic problem itself. Given the scale of atomic and chemical weapons and delivery systems now available to one or other protagonist, it would be very difficult to justify a failure by the international community to address the resultant volatile situation by concerted action. Such concerted action is now becoming a real possibility in view of the radical change that has taken place in East-West relations. Moreover, in certain circumstances the prospect of action of this kind, making use of all forms of pressure available, could itself help to revive a failing dialogue.

*The published report is available from the New York, Paris and Tokyo offices of the Trilateral Commission.*

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Garret FitzGerald consulting with Yitzak Shamir, Prime Minister of Israel, in Jerusalem on March 20, 1990

Garret FitzGerald consulting with Yasser Arafat, Chairman of the Executive Committee of the Palestinian Liberation Organization, in Tunis on March 26, 1990
President George Bush
with the three Chairmen
(left to right: Georges Berthoin,
Isamu Yamashita
and David Rockefeller)
at a White House
reception for
Trilateral Commission
Members
April 23, 1990

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