

25X1

CENTRAL INTELLIGENCE AGENCY
NATIONAL FOREIGN ASSESSMENT CENTER

Partly accurate
fallacious
#9
m

22 October 1979

MEMORANDUM

(Western Europe + Japan)

CHANGING POWER RELATIONS AMONG OECD STATES*

Overview

Over the past several years, United States relations with its major OECD partners have undergone a series of gradual changes whose cumulative impact suggests that the United States is losing its leadership position within the OECD arena, without being replaced by any one, or group, of its allies.

The multitude of ties that constitutes the OECD power relationship is so complex that it is difficult to gauge how far the erosion of American leadership has progressed, and what reciprocal impacts changing economic, military, political, West-West, East-West, and North-South relations have on each other. Nevertheless, American influence is declining, albeit to different degrees and at different rates, in all phases of the allied relationship.

To a considerable extent, that decline is a product of the consistent and conscious US effort throughout the post-war period to enhance its partners' military and economic capabilities. But it is questionable whether the ultimate consequences of that policy for allied solidarity were ever thoroughly considered--by either the United States or its allies.

25X1

* This memorandum was prepared by [redacted] International Issues Division, Office of Political Analysis. It has been discussed, but not coordinated, with other interested NFAC analysts. The author offers one interpretation of a complex, evolving relationship, and is aware that the issues discussed lend themselves to different interpretations. [redacted]

25X1

25X1
25X1

CONFIDENTIAL

25X1

*An alliance of more equal partners could eventually prove stronger than one under American dominance. But such a positive outcome would require major changes in the OECD decisionmaking process, based on substantial alterations in the allies' behavior and expectations vis-a-vis one another. Some changes have already occurred--for example, in the broadening and deepening of allied consultations on national economic policy issues--but they have not gone far enough, nor have they been fully accepted by all of the participants. Unless substantially more progress is registered, there is a real prospect of an essentially leaderless OECD with a substantial increase in uncertainty, complexity, and friction on basic political, military, and economic issues.**

The Nature of the Change

The change in the relationship between the United States and its major allies has not been marked by dramatic, easily identifiable turning points. Instead, it can best be described by a "take-off" analogy, wherein a series of limited quantitative changes eventually leads to a qualitative change. That kind of shift may be far more basic and less reversible than one brought about by dramatic events whose effects might disappear as quickly as they arose.

The problem is not one of increased enmity or even--as yet--of basic divergencies in interests between the United States and its allies. The change entails, instead, a diminution of American decisionmaking power and influence with its allies resulting from lack of trust in US responsiveness and policymaking skill, as well as from a perceived decline in relative American political, economic, and military power.

Allied mistrust of, and differences with, the United States are not new phenomena in Atlantic relations. No state can entirely trust another on which it is economically and militarily dependent; too much is at stake for it to do so. In the past, however, the allies ultimately had no choice but to accept US leadership, even if they worried that some American decisions might not be in their best

* In this memorandum, the acronym "OECD" is used loosely to denote not the specific organization, but the general relationship of the major Western industrial countries to each other. The words "alliance" and "ally" are used equally loosely to cover political and economic as well as military ties.

interests. They could resist major US initiatives--like the Multilateral Force--which required their active collaboration. They could even--like France--go so far as to withdraw from NATO. But they could not initiate. And their occasional resistance to the United States was a sign of weakness rather than strength, since it was predicated on the assumption that they could do little to influence--either positively or negatively--the American strategic commitment to them.

Now the allies believe that their capabilities go far beyond resistance, and that their interests increasingly demand that they seize the initiative or even act independently. In part their increased power and independence vis-a-vis the United States is the inevitable result of normal political and economic development. Nation-states with a long tradition of independent action and with significant capabilities could not be expected to remain indefinitely docile.

While the current situation in the alliance was probably inevitable eventually, its appearance was hastened by the years of American dominance. The United States worked directly for its allies' growth and development in a variety of ways: in the immediate postwar period through economic and military assistance, and pressure for West German rearmament and for West European unity; later through calls for allied "burden-sharing" in the political and economic, as well as military, fields. The indirect contribution of the United States was even more important. By assuming most of the responsibility for allied defense and for the maintenance of the postwar trade and monetary systems, the United States helped to create an environment for the allies that was both conducive to, and allowed almost exclusive concentration on, their domestic economic and political development. At the same time, the economic costs of the leadership role undermined the economic strength of the United States itself.

In encouraging the revitalization of its allies, the United States probably never directly confronted the probability that they would eventually want to steer a more independent course. Instead, US policy was based on an implicit assumption that continued common interests would allow it to share the responsibilities, more than the rights, of leadership with its strengthened allies.

At the same time as the United States finds it difficult to abandon that assumption, the West Europeans and Japanese are having even more difficulty in defining their preferred role in the alliance. On the one hand, they are frustrated by the remaining sizable limits on their capacity for independent

action, especially in the military field. On the other hand, they are reluctant to accept the costs of increased initiative and autonomy. The result is an alliance in transition to an unknown end, characterized by both continuity and change. But the changes, and the attendant strains between the United States and its partners, are becoming increasingly dramatic.

Signs of Change

OECD Economic Relations

By definition, neither the United States nor its allies can act completely independently in the area of OECD economic relations, which is the area of interdependence *par excellence*. But the West Europeans, rather than waiting for American action, have recently shown a marked tendency to take the initiative in OECD economic matters, presenting the United States with policy proposals to which it must react.

Monetary questions provide one of the best current examples of changing allied relationships on OECD economic policy issues. The ability of the United States to direct the international monetary system was once virtually unquestioned, based as it was on American economic, political, and military dominance, and on the advantages stemming from the American guarantee of the Bretton Woods system to the allies' economic interests. By the early 1970s, the United States could no longer play that role, but the allies continued to look to it for international monetary leadership. Now they have ceased to do so.

The anti-inflation and dollar support programs adopted by the United States in the fall of 1978 were the result in great part of allied pressure. At the same time, France and West Germany seized the initiative by launching the European Monetary System (EMS). The EMS was established to provide some exchange rate stability in Western Europe, as long as it was impossible to achieve on the OECD level. West European leaders assert privately that the EMS was made necessary in large part by US economic and fiscal mismanagement, which they claim is heavily responsible for continued international monetary disorder.

The EMS has experienced considerable strain, caused to a great extent by the unwillingness of West Germany to play in the EMS a role equivalent to that of the United States in the Bretton Woods system, and by the absence of an EMS dollar policy. The problems in the EMS reflect several

general factors that severely limit West European ability to exercise leadership in OECD economic affairs: the absence of common economic policies; the unwillingness of key West European states to make domestic sacrifices for international reasons; and the continued preeminence of the United States.

Nevertheless, the EMS has accomplished the goal of providing some monetary stability within Western Europe. And the members feel that their political and economic credibility is too much at stake for them to allow the EMS to fail. Periodic currency realignments like those of September 1979 are to be expected, but no member is likely to leave the system in the foreseeable future.

Energy provides a second major example of changing decisionmaking patterns within the OECD. The oil boycott and price increases of 1973-1974 enhanced American power in the eyes of its allies, because the United States was comparatively self-sufficient in energy. The United States could, therefore, fairly easily persuade its OECD partners--with the notable exception of France--to accept its proposals on consumer country energy policy and establish the International Energy Agency. In the ensuing years, however, the United States has not been able to exercise effective leadership over OECD energy policy, in large part because of its steeply rising dependence on imported oil.

The West Europeans therefore decided to take the initiative in the allied response to the "second world energy crisis" of 1979. They reached a compromise among their national energy proposals at the Common Market Summit in late June, in order to present a united proposal at the Tokyo Summit one week later. The EC members were explicit in their belief that a West European energy program could not succeed without the participation of the United States, the world's leading energy consumer, but that the United States could not be relied upon to initiate an adequate program for itself or its allies.

The limited success which the West Europeans registered on the energy issue in June reflects the same general constraints which have plagued the EMS. The EC members had difficulty agreeing among themselves on a joint proposal, and still more in persuading the United States to accept their ideas. The outcome, at both Strasbourg and Tokyo, was disappointing to many. Implementation of the Tokyo decisions is proving even more difficult. Nevertheless, the West

Europeans did show an ability to act quickly in response to a perceived crisis situation, and perhaps more important, gave additional evidence of their determination to take a leadership position on OECD economic questions.

Military Issues

By comparison to OECD economic issues, American decisionmaking power in allied strategic relationships remains largely intact. United States control of the strategic arsenal of the West cannot be disputed. But that fact no longer has the spillover effect into other issue areas that it once had, and there are important signs of increased West European and Japanese restiveness with United States military dominance.

Two recent sets of US decisions highlighted to the allies not only their military dependence on the United States, but also the costs of that dependence. First the United States decided to produce the "neutron bomb" (enhanced radiation warhead) and pressured the West Germans to overcome the considerable domestic opposition to its deployment on their territory. After the West German Government had launched a major campaign to win domestic support for the weapon, the United States decided not to produce it.

Similarly, Japanese feelings of strategic vulnerability were considerably heightened by the United States decisions to withdraw from South Korea and to terminate its mutual defense pact with Taiwan. The subsequent United States suspension of the South Korean troop withdrawal assuaged many of the Japanese fears, but also did not help the United States' reputation for decisiveness and reliability. Those decisions have all strengthened the Japanese doubts about the American defense commitment which were inspired by the end of the Vietnam War. Those doubts have in turn helped significantly to heighten discussion in Japan about rearmament, and about establishing formal ties with NATO.

Neither Japan nor West Germany is likely to become a major, let alone an independent, military power. Even if such an evolution were technically and economically feasible, the domestic and international political costs would be unacceptable--the legacy of the Second World War remains too strong. Nevertheless, resentment and frustration within West Germany and Japan at the disparity between their economic strength and their military weakness vis-a-vis the United States inevitably has a wearing effect on their relationship with the United States in both areas.

Allied dissatisfaction with their military dependence on the United States is now focused on the SALT II ratification process. The West Europeans are genuinely worried that the US executive may not be able to win Senate approval of the treaty, and have broadly hinted that they may have to rethink their security relationship with the United States and the Soviet Union if the Senate rejects the treaty. The situation is strikingly reminiscent--in reverse--of that in December 1953, when the US Secretary of State threatened an "agonizing reappraisal" of American policy toward Western Europe if the French Parliament rejected the European Defense Community Treaty. Nothing would be likely to result from any West European "agonizing reappraisal" (any more than it did from Secretary Dulles'), but the concerns expressed--and the changed relationship which they reflect--are very real.

West European concern that SALT II may not be ratified does not mean that they are satisfied with the treaty. On the contrary, they fear that it may further narrow the strategic gap between the United States and the Soviet Union. Nevertheless, the West Europeans are even more concerned about the negative implications for the international position of the US Government if the Executive can not keep a major foreign policy commitment because of Congressional opposition.

Relations with Developing Countries

The structural limitations on allied independence evident in military and OECD economic matters are not as great in regard to allied relations with LDCs. In that area, the West Europeans and Japanese are tending increasingly to pursue their political and economic interests independently of the United States.

That tendency causes least friction between the United States and its allies in Africa and Southeast Asia. France's policy in Africa continues to reflect its longstanding desire to retain postcolonial ties, but it now also has a wider aim that the French consider at least as important--to counter or stem the growth of Soviet influence in the region. The same consideration underlies a significantly increased West German involvement in the area. Given its anti-Soviet motive, West European activity in Africa has generally been consonant with American interests. The West Germans have been scrupulous in keeping the United States apprised of their actions in the region. Even the French tend to coordinate their activities with the United States; the most notable example is in the allied response to the Shaba invasion.

In Southeast Asia, heightened West European and Japanese activity reflects their desire to help foster political stability (and take advantage of economic opportunities) in the region now that the United States has reduced its presence in the area. The allies, however, are not likely to become militarily involved in Southeast Asia, if that should ever appear warranted. Southeast Asia is less important than Africa to the West Europeans for simple geographic reasons. Perhaps an even more important deterrent is the historical legacy of past Japanese, French, and American military involvement in the region. The nonmilitary nature of allied activity in Southeast Asia limits the need--and memories of the Vietnam War limit the desire--for close allied consultations in the area. But West European, Japanese, and American interests there are still generally consistent with each other.

Although West European and Japanese activity in Africa and Southeast Asia has not yet caused any major friction with the United States, tensions might arise in the future. The allies' activity in both areas is based on their definition of their own interests, not on any desire to be a proxy of the United States. As their involvement in those regions deepens, they will become progressively less likely to change their policies if they encounter American opposition.

In other Third World regions, the West Europeans, and to some extent the Japanese, already define their interests as different from those of the United States, and are therefore pursuing more independent policies. Their activity in Latin America, the Middle East, and South Asia has already caused considerable friction with the United States, and threatens to cause more in the future. The United States has clashed with the French and West Germans over sales of nuclear technology and conventional arms to those regions. Further conflicts with OECD partners over access to nonmilitary-related markets and raw material supplies appear likely. The most obvious, and most important, example is the Middle East, where the latest oil price increases have inspired the West Europeans--and especially the French--to escalate their already active efforts to forge special bilateral and bi-regional ties, to the exclusion of the United States.

In some cases of friction between the United States and its allies over policy toward Latin America, the Middle East, or South Asia, the United States has apparently been able to persuade its allies to change their policies. The suspension of the French nuclear sale to Pakistan is a good example. But in most instances the United States has not

been able to convince its allies of any common interest sufficiently overriding to justify the costs of a change in course.

Indeed, in the Middle East, the West Europeans, and to a lesser extent the Japanese, increasingly believe that their interests not only differ from those of the United States, but also call for their explicit dissociation from the United States, since many states in that region seek an alternative to their ties with the United States for political reasons. The same observation applies to West European and Japanese activity in Latin America, with two important qualifications. The allies view that region as less vital to them than the Middle East, although Mexico and South American countries such as Brazil are increasingly economically important to them. And, in Central America, the existence of a Communist threat provides a common interest with the United States which may override their differing interests.

Causes of the Change

West European and Japanese Perceptions of the United States

US influence on its allies has waned primarily because they believe that the relative political, economic, and military power of the United States has declined, and that it is ineffectively managing its still sizable remaining power. As a result, the allies believe that greater independence or initiative on their part is both possible and necessary.

There is considerable doubt among the allies that the US Executive pays sufficient attention to international factors when devising policies that will have both domestic and international impact. Even if it does, they question whether it has the political power vis-a-vis the US Congress and various domestic interest groups to be able to execute its foreign policies and promises. There is also a widespread belief that, after Vietnam, the United States no longer has the political will to be the kind of alliance leader and global actor that it once was. (Even as they make that complaint, it is obvious that the allies would resist any US effort to reassert that role, unless it were carefully coordinated with them.)

Finally, the allies believe that the United States no longer has the economic power necessary for dominance. United States productivity growth continues to be lower than that of most industrialized countries. The dollar is

subject to speculative attack more often than not. Whereas relative economic self-sufficiency was once one of the major strengths of the United States, foreign trade now holds a steadily growing place in the American economy. Most obvious, and most important politically and economically, in that respect is increased US dependence on imported oil.

The fact that the United States is no longer self-sufficient in energy has several consequences in the minds of the allies: it cannot be relied upon for help in the event of an oil cutoff; its ability to withstand pressure from the Organization of Petroleum Exporting Countries is severely diminished; and it is increasingly a competitor with its allies for access to oil. In addition, US political and economic management is suspect because the United States has allowed itself to become more dependent on imported fuel at a time when the political and economic costs--to both itself and its allies--of that dependence are all too obvious.

The economic problems of the United States' have inspired a variety of specific policy moves by its allies--in OECD monetary and energy policies and in relations with LDCs--that are designed to reduce the adverse impact on them of those problems. More generally, the US economic difficulties heighten allied doubts about America's freedom of action in foreign policy. US foreign policy was once conducted with relatively little regard to its economic costs; that era reached its high point--and its end--during the Vietnam War. Now the allies fear that the United States will eschew some actions (for example, the development of the B-1 bomber) and feel forced into others (for example, arms control agreements) because of economic considerations, when political and military factors might have pointed in another direction. An economically strapped alliance leader, in short, must to some extent be considered an unreliable one.

On the more purely political side, the West Europeans and Japanese question the wisdom (and sometimes suspect the motives) of various American initiatives in areas like nuclear proliferation, conventional arms transfers, and human rights. America's allies view those US policies as presenting both a threat and an opportunity--a threat because mistaken American policies might harm them if they are too closely tied to the United States; an opportunity because dissatisfaction with those policies heightens the interest of advanced developing countries in pulling away from the United States and toward Western Europe and Japan.

Western Europe and Japanese Perceptions of Themselves

As West European and Japanese doubt in American capabilities has grown, their confidence in their own power has increased--at least relative to that of the United States. The most dramatic, and the most important, change has been in West Germany. The economic giant is no longer the political dwarf who was reluctant to take any initiatives and who was usually ready to do the bidding of the United States. Instead, it is increasingly pursuing independent political-economic interests (for example, in Brazil) and working at persuading its EC colleagues to join it in policies designed to advance their common interests (for example, the EMS, and the developing EC relationship with the Association of Southeast Asian Nations). The 1979 Guadeloupe Summit--where the Big Four* for the first time discussed strategic issues in a formal meeting--and West Germany's increasingly vocal expression of security concerns, may signal the start of a new, though still cautious, activism in the strategic sphere as well.

In part, the change in the West German attitude can be attributed to the presence in office of Chancellor Helmut Schmidt--supremely confident of his own abilities, disdainful of many others, and able to work in close cooperation with French President Valery Giscard d'Estaing. It is unlikely, however, that West Germany will return to its previous docility when Schmidt leaves the Chancellorship; it simply took someone of his personality, ability--and generation--to make the breakthrough.

Japan has kept a much lower international political profile than West Germany. It has however, become steadily more assertive (not to say obstreperous) in OECD economic negotiations. It has also been quietly, but significantly, expanding its political activities throughout Asia, and has expended considerable political effort to ensure access to markets and raw material supplies in other developing regions.

One of the most interesting signs of change in OECD relations is in the attitude of France. It is often more accommodating to the United States now than it was in the past, but in large part because it can afford to be. Its

* *The United States, United Kingdom, France, and West Germany.*

battles have been won; its independence is widely recognized; it can deal with the United States on a more equal basis; and it has forged a close relationship with West Germany that enhances its influence. Being relatively weak, de Gaulle had to dictate; he could not afford to bargain with the United States, and often could not even bargain with his EC partners. Giscard can be more cooperative when that suits his interests (for example, in NATO and Africa), while going his own way when that appears more profitable (most notably in the Middle East).

The "special relationship" between the United States and the United Kingdom, finally, has lost much of its meaning. The United States is no longer significantly closer to Britain than to its other major allies. Even if the old relationship still existed, it would not mean a great deal, given the United Kingdom's now largely secondary political, economic, and military role in the EC, in NATO, and in the Third World. Insofar as the Thatcher government is interested in expanding that role, it apparently intends to do so in an EC more than an Atlantic framework.

Western European and Japanese Perceptions of the Advanced Developing Countries

If the West Germans, French, and Japanese perceive that their power has increased relative to that of the United States, they may be even more impressed by the growing strength of the oil producers and other rapidly developing countries.

The United States is one of the most important economic partners of the other OECD members. But they tend to take that situation for granted, and concentrate more on its attendant liabilities than on its positive aspects. In strategic protection, the United States has something vital to offer its allies, but it is vital only in an ultimate sense, and the need for it impinges less and less on practical current concerns. At the same time, the allies' strategic dependence on the United States is a source of friction as well as cohesion.

The OPEC states and other rapidly developing countries, by contrast, offer the West Europeans and Japanese some things that they badly need in the here and now and which they do not take at all for granted--primarily raw materials, but also expanding markets. This is not to say that the allies would abandon NATO for Iran or Saudi Arabia. And a clear Communist threat in the Third World still tends usually to inspire allied solidarity. But they do not often perceive such

threats, and the competition for scarce resources in the advanced developing countries inevitably means that the allies pursue their national interests there aggressively, while sometimes paying relatively limited attention to the possible global strategic implications of their actions.

Western European and Japanese Perceptions of the Soviet Union

In part because of their own perceptions of declining American power, in part because of more objective considerations, the West Europeans and Japanese increasingly believe that the United States is losing international political-military position to the Soviet Union. For evidence, they point particularly to the narrowing of the strategic gap and to the activities of Soviet proxies in Africa and Southeast Asia.

To some degree that development has drawn the allies closer to the United States, because of their heightened fear of the USSR. But it has also led to increased attention, especially in West Germany, to a possible long-term need to forge an independent accommodation with the Soviets. Any real movement in that direction in the foreseeable future is hard to imagine, but the fact of the discussion is significant.

The Consequences of Change

The relationship among the major OECD countries is complex and difficult to define, and promises to become more so if present trends continue. United States influence over its allies is clearly declining, to differing degrees and at different rates depending on the issue area, but with spillover from one to another. At the same time, mutual dependence is increasing; neither economically nor militarily can the partners afford consistently independent, much less aggressively competitive, actions.

No successor to the United States as the dominant OECD partner seems likely to emerge. While it is theoretically conceivable that the European Community as a whole could assume economic, and perhaps even military, leadership in the alliance, it is highly improbable that it could achieve the sustained, virtually total unity necessary for it to play that role. Moreover, none of the allies appears willing to pay the political and economic costs associated with either military or economic leadership.

In asking the United States to give priority consideration in its decisionmaking to international over domestic factors, and to alliance interests over national interests, the allies are asking it to do something that they have by and large never had to do themselves. Although they want to have more influence over their own futures, they are still loath to give up the advantages that their previous lack of international responsibilities have given them.

It is possible that the OECD would be stronger as a relationship of rough equals than it was earlier, provided that the United States accepted the reduction in its influence, and the allies accepted new responsibilities commensurate with their new power. If common decisions could be reached in such a relationship, the alliance would probably be more stable and healthier in the long run than it would be if the United States continued to dominate--even though it would not be one whose decisions neatly conformed to initial American wishes.

While common decisions are possible among equals, however, they are not necessarily probable. Joint or even coherent policy decisions within the OECD area will necessarily become more difficult with the United States no longer the final arbiter, and with no other OECD member--either singly or in concert--able to assume the place that the United States once held. If the alliance cannot in fact reach common decisions, the strains within it will inevitably increase. The members will probably pursue a growing number of independent actions, and this over time will be likely to lead to an increasing divergence of basic interests.

These considerations lead the West Europeans and the Japanese to be ambivalent about the apparent decline in United States influence over them. On the one hand, they welcome the opportunity to advance their own interests as they see fit. On the other, they are reluctant to incur the attendant economic costs, and they fear the weakness that could result from the lack of a clear leader in the alliance. The West Germans, in particular, appear anxious for the re-emergence of the United States as the undisputed power center within the OECD. Otherwise, they would probably not be as openly concerned as they currently are about the decline in American leadership. Nevertheless, they will probably never return to their former pliancy; in the growing number of areas where they have a choice, they want US leadership only if it conforms to their interests.

This paper is classified CONFIDENTIAL

25X1

- 14 -

CONFIDENTIAL