# SECURITY RECONSIDERED:

# PRINCIPLES AND PROBLEMS

ROME, 24-25/XI/1988

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SECURITY RECONSIDERED:
PRINCIPLES AND PROSPECTS
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PROGRAM OF THE WORKSHOP ON

"SECURITY RECONSIDERED: PRINCIPLES AND PROSPECTS"

Sponsored by the
Istituto Affari Internazionali, Rome

and the

Center for International and Strategic Studies
York University, Toronto

24 November

9:15 East-West Relations and Western Security

Canadian images of the Strategic Environment: Implications for East-West Relations (R.B. Byers)

Italian views of Current Trends in East-West Security Relations (Antonio Armellini)

Discussion

10:45 Coffee Break

11:45 Arms Control and European Defence

Arms Control and Security in Europe (Stefano Silvestri)

Non-offensive Defence and European Arms Control (Jim Macintosh)

Discussion

13:00 Lunch

15:00 NATO From Within: Italian and Canadian views

An Italian view (Guido Lenzi)

The Future of NATO's Strategy (Paul Buteux)

Discussion

16:30 Session adjourns

25 November

9:15 International Economic Security

Canada and Defence Industrial Cooperation (Michael Slack)

Canada, Italy and the International Economy (David Leyton-Brown)

The Debt Crisis from Declining Hegemony to Multilateralism (Pier Carlo Padoan)

Discussion

10:45 Coffee Break

11:15 NATO Security Cut-of-Area

Italy and the Out-of-Area NATO Intervention (Roberto Aliboni)

Canada NATO Out-of-Area, and the OECD Connection (David Dewitt)

Economic Security in North-South Perspective (Bernard Wood)

Discussion

13:00 Workshop adjourns

(6)

Italian Institute of International Affairs
and
York University Centre for International and
Strategic Studies

November 21 - 30, 1988

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LIST OF PAPERS

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| R.B. Byers | "Canadian images of the Strategic Environment: Implications for East-West Relations" |
| Jim Macintosh | "Non-offensive Defence and European Arms Control" |
| Paul Buteux | "The Future of NATO's Strategy" (Abstract) |
| Michael Slack | "Canada and Defence Industrial Cooperation" |
| David Leyton-Brown | "Canada, Italy and the International Economy" (Abstract) |
| Piercarlo Padoan | "The Debt Crisis from Declining Hegemony to Multilateralisms" |
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| Bernard Wood | "Economic Security in North-South Perspective" |
| David Dewitt | "Canada, NATO Out-of-Area, and the OECD Connection" |

# Competing Images of the Strategic Environment: Implications for East-West Relations

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Many observers would agree that the current strategic environment is in a state of transition and that strategic uncertainty is the order of the day. In Canada, as is the West, strategic dissensus has become a continuing feature of the security debate. The lack of consensus is, in part, a function of competing images of the future strategic environment which portray quite different alternative strategic options for East-West relations. This being the case, the purpose of this paper is fourfold: first, to outline the major features of the current East-West strategic environment; second, to indicate those developments which suggest that the existing strategic environment is in transition; third, to outline four competing images of the future strategic environment; and fourth, to indicate some of the implications for East-West relations which flow from each of the competing images.

Features of the East-West Strategic Environment:

Canada's strategic environment is a function of the East-West strategic environment and three interdependent sets of characteristics - structural, perceptual, and behavioural - should be assessed.

Within the structural context of the nation-state system the United States and the Soviet Union, given their military capabilities, have been the dominant actors since the end of World War II and are likely to remain dominant in the foreseeable future. More than any other factor the nuclear capabilities of the superpowers have shaped the distribution of military and political power within the international system. Other national actors, including the other nuclear powers, have only a limited impact on the structure of the strategic environment. It is correct to note, however, that Britain and France remain major powers and that China's nuclear capability cannot be ignored. Third World states, such as Israel, Iran and Iraq, have become important regional actors, but have not affected the underlying distribution of power within the international system.

As opposing military alliances, NATO and the Warsaw Pact have served as structural mechanisms of military and political interdependence within the West and East respectively for nearly 40 years. The superpowers have been the dominant actors within the alliance system, but NATO and the WPO - especially the former - have offered other members of the alliances, including Canada, the opportunity to participate in decisions which affect the strategic environment. Other international organizations - such as the United Nations and regional organizations - have had only a marginal impact on the structure of the strategic environment. However, it should be noted that United Nations participation in the area of peacekeeping has influenced the structure of the international system.

From the perspective of the superpowers and the two alliances strategic stability, despite arguments to the contrary, has been maintained as a structural characteristic of the strategic environment. Strategic stability presumes that neither side has a rational motive to launch an attack on the other. Given the nuclear retaliatory capabilities of the superpowers a credible second strike capability exists in both East and West and this is sufficient to ensure stability. Yet, the strategic bipolarity of the early 1960's has evolved in the direction of bi-multipolarity. However, from the political and economic perspectives the structure of the international system has become increasingly multipolar and this has affected the East-West strategic environment.

From the perceptual perspective, the strategic environment has been profoundly affected by long-standing and deep-rooted 'enemy images' in both the East and the West. Images of the enemy have had a profound impact on perceptions of military threat and such perceptions, in both East and West, have generally been based on worst-case analyses. These assessments have served as justifications for the acquisition of military capabilities beyond those required for defensive purposes thereby fueling the arms race. In addition, 'enemy images' have helped shape the military doctrines of the superpowers as well as those of NATO and the WPO. Within the alliance systems 'ethnocentrism' has had a major influence on perceptions of the 'enemy' and the 'military threat'.

For national governments - as well as for NATO and the WPO - assessments of military capabilities more than assessments of intentions and interests have shaped political and military responses. In fact, neither side has paid particular attention to realistic assessments of intentions and interests, but rather has preferred to cling to cliches formulated in the height of the Cold War. Both NATO and the WPO (as well as the two superpowers) have military capabilities and declared military doctrines which are claimed to be for 'deterrence' and 'defence', but which are perceived to be 'offensive' and for 'war-fighting' by the other side. Nevertheless, there appears to an East-West consensus that a nuclear war should not be fought and can not be won.

Among the attentive publics within the West (and possibly the East) there has been a continuing and increasing concern with the extent of nuclearization of the strategic environment. As a result the viability of deterrence has been questioned and segments of the attentive public have placed greater emphasis on the need for 'reassurance'. For many the current Soviet leadership under Gorbachev is perceived generally to be more dynamic and accommodative than the American leadership at a time when there are concerns about the nature and wisdom of the latter.

In terms of behavioural characteristics, East-West relations have involved - in varying degrees - elements of cooperation, competition, and conflict; but mistrust, uncertainty, and antagonism have shaped international behaviour in the political and military spheres. Cooperation has been most obvious in three areas- international trade, cultural exchanges and arms limitation. Strategic competition has influenced profoundly the arms race and relations with the Third World. Not surprisingly, East-West relations have been cyclical - alternating between periods of relative detente and mutual accommodation on the one hand and versions of the Cold War on the other hand. At any point in time internal domestic considerations - such as elections and public opinion - in the United States and Western Europe have had an important impact on the nature of relations. Soviet behaviour has been affected by countervailing forces within the party leadership as well as by relations with East European states.

Within the geographical confines of the NATO/WPO alliance system there has been both de facto and de jure agreement to maintain the non-amalgamated security region which has emerged: that is, the use of military force to resolve political differences does not constitute a viable option. Beyond the NATO-WPO region, however, both superpowers have indicated a willingness to utilize military force to protect their perceived national interests.

East-West relations have been influenced by ideology - democratic capitalism and marxist-leninism respectively. Nevertheless, in the final analysis, national interests have assumed greater importance than ideology in shaping behavioural responses. In effect, the behaviour of the United States and the Soviet Union has been more similar than dissimilar - superpowers behave as superpowers and ideology has been a justification for behaviour.

Arms limitation and confidence-building negotiations have been a central feature of the East-West relationship for years and some meaningful agreements such as the 1972 ABM Treaty, the 1979 SALT II and the 1987 INF Treaty have been reached. In addition, there has been some arms limitation progress within the broader European and/or global context. The 1975 CSCE and 1986 CDE Stockholm agreement reflects agreement on a range of European confidence-building measures while the 1967 Non-Proliferation Treaty remains an important global arms limitation agreement. All too often, however, both East and West have advocated proposals to achieve unilateral political and military advantage rather than mutual accommodation.

Indicators of Change: Transitional Aspects

In the near to mid-term (next 5 years) the major structural characteristics of the East-West strategic environment are likely to remain basically unaltered. However, a number of potentially significant perceptual and behavioural factors, if retained over time, could lead to important structural changes.

From a number of economic and political vantage points both the United States and the Soviet Union are perceived as superpowers in decline and unlikely to retain their respective roles and influence within the international system. It has become increasingly apparent that neither the United States nor the Soviet Union is able or willing to exercise the same degree of control over international events as had been the case several decades earlier.

In military terms the nuclear capabilities of the superpowers will continue to place them in a class by themselves; but with augmented French, British and Chinese nuclear assets the nuclear balance will become more complex - especially if the superpowers reduce their nuclear inventories. The major indicators of decline are most apparent in the economic and diplomatic spheres of activity. The internal and external problems confronting the Soviet Union have been well documented and have been acknowledged by the Soviet leadership. The American problems are more recent but could be equally important for the long-term evolution of the international system. These include lack of consistency in foreign policy; the Iran-Contra affair; uncertainty regarding the post-1988 election period; the decline in the American share of world markets, large trade imbalances and subsequent economic protectionism; and, the extent of the national debt.

During the 1980's there has been greater willingness - especially in Western Europe and to a lesser degree in Canada - to view the Soviet Union as less of a threat. Similarly, Soviet leaders and elites appear to be less dogmatic concerning the nature and extent of the military threat posed by the United States and NATO. In effect, there are indications that the traditional 'enemy images' which have shaped East-West strategic relations may be changing. Should these perceptions

become solidly rooted as aspects of European, Soviet and even American strategic culture the prospects for major changes in East-West relations will be enhanced.

Among the attentive publics in a number of NATO states there is growing skepticism regarding the ability of the East-West alliance system to ensure long term peace and security. Increasingly, perceptions of the nuclear threat have emphasized the dangers of accidental and/or inadvertent nuclear war given changing military technologies and greater reliance on computer-related technologies. The uncertainties posed by the continuing militarization of space and the potentially destabilizing impact of SDI-related weapons - by both superpowers - have heightened public concerns about current approaches to international security.

In terms of the behavioural indicators of change the most significant have been the policy initiatives proposed by Mr. Gorbachev. The Soviet Union needs to restructure its economy, increase productivity and ensure economic well-being. Successful implementation has been linked to a stable strategic environment with greater normalization of East-West relations. From a military-strategic perspective, therefore, there is evidence to suggest that the Soviet Union may be willing to advocate - in terms of declaratory policy, military doctrine, force posture and capabilities - some form of 'mutual' rather than 'unilateral' security. The evidence is tentative and it remains unclear whether this is a short-term tactic or a long-term objective. Nevertheless, Soviet declaratory statements should not be dismissed out of hand.

A more dynamic and uncertain domestic political environment is emerging in Europe where there is greater willingness to address seriously the Soviet initiatives - particularly on the part of the smaller European powers and the opposition parties of the major powers (especially in Britain and West Germany). At the same time, however, there has been a resurgence of interest in the Europeanization of the defence of Europe at a time when questions are being raised about the long term commitment of the United States to the security of Europe. As a by-product of the Gorbachev initiatives and as a result of leadership changes in East Europe, prospects are emerging for a more independent set of policies and behaviour on the part of some members of the WPO. The mid-term effect of the Gorbachev initiatives on Eastern Europe remain unclear, but there will be changes in the status quo if the Gorbachev reforms are successful.

Since the Iceland Summit of November 1986 there has been a more serious attempt by both superpowers to come to grips with the nuclearization of the strategic environment. The INF treaty could set the stage for other agreements including meaningful reductions in superpower strategic systems. The possible spillover into the political realm could have a moderating affect on East-West relations. Both the United States and the Soviet Union have indicated a desire to resolve a number of their outstanding differences in the Third World. The agreement by the Soviet Union to withdraw from Afghanistan has served as an indicator of changed Soviet behaviour. In addition, there have been important breakthroughs in Third World conflicts such as the Iran-Iraq war as well as in Angola and Kampuchea.

Despite these perceptual and behavioural indicators of change it would be imprudent to assume that major changes in East-West relations are around the corner. The structures, attitudes and patterns of behaviour which have emerged since World War II remain deeply imbedded and there is powerful opposition to meaningful change in both East and West. Given past relations and the cyclical nature of East-West relations, any apparent bloom of detente should be viewed with caution. Transition is apparent, but in all probability uncertainty will be the major characteristic of the strategic environment for some years to come. In an era of strategic uncertainty both East and West should strive to enhance greater certainty based on mutual understanding and accommodation, but wishful thinking should be avoided.

## Competing Images of the Strategic Environment

Perceptions and assessments of the current state, and future evolution, of the strategic environment vary considerably within the West. Strategic dissensus has become the norm. Whether at the national or the individual level, perceptions are shaped by a wide range of factors including historical experience, geo-strategic position, military power, role and position in international affairs, diplomatic tradition, and so on. In addition, for the individual policymaker, numerous socio-psychological and institutional factors are involved. Not surprisingly consensus regarding the strategic environment, to say nothing of the scope and nature of specific military threats, as well as the manner and type of response, is often difficult to achieve. Even if consensus can be attained - as for example, on the need for NATO to develop and implement a comprehensive approach to arms control and disarmament - other factors, such as the economics of defence or the domestic political environment, can have a more important impact on policy decisions.

Despite these complications, assessments of the strategic environment based on competing images can serve a number of useful purposes. Images and perceptions are important indicators of the preferred and potential range of policy options which can be addressed by policymakers. Contrasting images reflect underlying differences between and among national actors. In the case of the current strategic environment at least four competing images can be identified. Each image has a quite different vision of East-West strategic relations and each image has different implications for Western security. It should be clearly understood, however, that competing images can simultaneously co-exist at any point in time even though one image is likely to be dominant. Furthermore, during periods of strategic transition the prevailing image may not be as clearly delineated as is suggested in this paper.

The prevailing and official image which underlines Western security remains that of the 'Cold War' - albeit in a less harsh form than during the 1950s. This image is currently projected by the American administration and by NATO. Canada's 1987 defence white paper, Commitment and Challenge, despite protests to the contrary, conforms to this image and aligns itself with American and NATO views. Advocates of this image are generally on the centre-right wing of the security debate and tend to perceive the future of the strategic environment from a 'Cold War' perspective. East-West strategic relations will continue to be largely shaped by strategic competition and potential conflict even though cooperative

arms limitation and confidence-building measures are not ruled out.

Commitment and Challenge observes correctly that the major security concerns of Canada remain a function of the state of East-West strategic relations. There are democratic values which Canada and members of the Western Alliance must protect. The major security threat remains the possibility of nuclear war between the superpowers and/or in Europe. The international environment is perceived to be less benign than during the early 1970's and military force is too frequently relied upon in attempts to achieve political objectives. The East-West relationship remains based on mistrust and uncertainty. The Soviet Union remains a military, political, ideological and economic adversary. Yet, war with the Soviet Union is not inevitable and mutually beneficial security and political arrangements are possible. However, in the absence of meaningful political accommodation, East-West military capabilities must remain in rough balance and nuclear deterrence is a necessity.

This assessment of the current strategic environment is essentially correct; but the defence white paper offers a highly questionable and controversial interpretation of Soviet intentions and military capabilities. The Soviet Union is perceived is an adversary whose objective remains world domination and the language used to describe this image is reminiscent of the 'Cold War'. There is no attempt to address developments in Soviet foreign and security policy during the Gorbachev era. The possibility of a less antagonistic political and military relationship with the West remains basically unacknowledged. The discussion of military capabilities conveys the impression that the United States and NATO appear to be at a distinct military disadvantage when compared to the Soviet Union and the Warsaw Pact. This case is overstated and a more plausible approach would have noted that despite military asymmetries neither side, given the state of military balances and the dangers of nuclear escalation, could be assured of military victory. Since the publication of the white paper statements by senior government officials, including the Prime Minister and the Defence Minister, have acknowledged the possibility of change in East-West relations and have indicated that the initiatives proposed by the Soviet Union should be addressed in a serious manner.

A second image of the strategic environment is that of 'Modified Detente'. This image perceives a possible return to a more accommodative East-West relationship reminiscent of the early 1970's. Should this occur, advocates argue that superpower and East-West relations must be defined with more precision than has previously been the case and that the potential benefits of mutual accommodation should not be oversold.

With Modified Detente, the current structure of the strategic environment would remain essentially unchanged - that is, the United States and the Soviet Union, along with NATO and the WPO, would continue to serve as the cornerstones of East-West military relations. However, far greater emphasis would be placed on the need for creative diplomacy to ensure a peaceful and stable strategic environment. Arms limitation agreements and confidence-building measures could reduce reliance on nuclear weapons and both East and West would strive to reach mutually accommodative political solutions when differences arise. Strategic competition would remain, but greater emphasis would be placed on the cooperative aspects of strategic relations within a framework of greater military and political

stability.

This image of the strategic environment underlined Mr. Trudeau's 1983-84 Peace Initiative with its plea for a return to a more accommodative pattern of East-West relations. It also appears to be reflected in the approach adopted by the 1986 Parliamentary Report (Hockin-Simard Report), entitled Independence and Internationalism, and the accompanying responses by the Department of External Affairs. In effect 'constructive internationalism', which stresses a balance between defence and deterrence on the one hand and detente and accommodation on the other hand, is compatible with this image of the future.

Constructive internationalism is the 1980's version of Pearsonian Internationalism and is consistent with the underlying principles of the 1967 Harmel Report. The 1987 defence white paper makes no explicit reference to these aspects of Canada's security policy. Yet the Mulroney cabinet approved both the defence white paper and the response to the Hockin-Simard Report. This left unanswered which vision of the future represented the view of the Mulroney government. However, it should be noted that there is nothing unusual in different structures of government reflecting different images of the strategic environment. The problem is trying to assess which image could prevail under what circumstances. Opinion data indicates that the majority of the Canadian public supports a return to some form of detente and this is consistent with long-standing Canadian attitudes towards East-West relations.

A third image, which is held by a minority of Canadians and Americans, is that of 'Isolationist/Fortress' America. This image builds on traditional American isolationism and its current manifestation is fed by the degree of dissatisfaction with America's role and position in the international system. As a declining superpower the United States must reduce its international responsibilities, consolidate its military commitments and assume a less active role in world affairs. The perceptual bases thus stem from the desirability of the United States remaining unfettered by the demands of political, economic and military interdependence. Advocates claim that Isolationist/Fortress America would allow the United States to pursue her vital interests in a more independent manner in a world where the existing underlying nature of Soviet-American relations would remain unchanged. The isolationist component of this image is primarily a left-of-centre perspective (held more by Canadians than by Americans); while the Fortress America aspects tend to originate with the American right wing.

The neo-isolationism of this image is also based on the premise of an American withdrawal from Europe and with Europeans assuming responsibility for their own security. This could lead to fundamental structural changes in the strategic environment as American withdrawal could mean the de facto disintegration and possible dissolution of the Western Alliance. For Canada the implications of Canadian participation in NATO and for Canadian-American defence cooperation remain unclear since the American advocates of this image have not addressed this aspect of the issue. Despite their protestations to the contrary the defence policy of the New Democrats, as well as those views expressed by columnists such as Gwynne Dyer, conform to this image: that is, opt out of NATO and NORAD, and utilize Canada's military capabilities to enhance security and sovereignty from an independent perspective.

A fourth image of the future advocates the establishment of an explicit and cooperative East-West Security Regime. A security regime would consist of an agreed-upon set of principles and norms, along with the appropriate rules and decision-making mechanisms, to guide the conduct and implementation of East-West security relations. If the current range of East-West negotiations, including the nuclear, conventional, chemical and confidence-building talks, are successful then the basis for an explicit security regime would exist.

The security regime vision is based on the types of premises outlined by the Palme Commission on the need for 'common' or 'mutual' security. Both East and West would agree on the desirability of shared or complementary security values to guide the relationship rather than place emphasis on the minimum common denominator or on the upgrading of some common interests such as the avoidance of nuclear war. The perceived need to structure the strategic environment based on 'military threats' and 'enemy images' would be reduced substantially as a comprehensive approach to East-West security issues within a mutually agreed political-diplomatic and military-strategic framework could be pursued. This would necessitate changes in military doctrines, force postures and military capabilities. Over time the current alliance system could be replaced by other structural mechanisms.

This image of the future constitutes a minority left-of-centre perspective which has advocates primarily in Europe and to a more limited extent in Canada. The 1988 New Democratic party report entitled Canada's Stake in Common Security expressed many of the underlying premises of the security regime image. However, like the Mulroney government the New Democrats have articulated components of competing images which are basically incompatible with one another. The attitudes of the Canadian public suggest that there could be considerable support for the establishment of an East-West security regime, but virtually no support for an isolationist Canada.

## Competing Images and the Implications for East-West Relations

As previously noted there are indications that East-West strategic relations may be in transition and that strategic uncertainty is likely to prevail in the immediate term. Each of the competing images of the strategic environment have different implications for Western security and Canada's approach to security issues could be affected differently in each case. This is complicated by the fact that no one image elicits consensus and/or by the possibility that the dominant Canadian image may or may not prevail generally within the West. Alliance consensus is more difficult to achieve under circumstances where national governments have different images of the strategic environment.

Irrespective of the degree of consensus, aspects of security policy can be affected differently depending upon the image which is adopted: the management of East-West and intra-alliance relations; the nature of strategic doctrine; the role and importance of arms limitation; the linkages between security and sovereignty; commitment to the defence of Europe; military force postures and structures; the allocation of resources for defence; and, public reassurance.

The management of East-West and intra-alliance relations remains a priority for NATO. Complex interdependence will remain a feature of the strategic environment irrespective of which image of the future prevails. Thus in one form or another elements of cooperation, competition and potential conflict will remain as the three patterns of interaction depending on the issues and circumstances. With respect to the future at least two major issues should be addressed. First, to what extent will uncertainty and mistrust continue to underlie East-West relations? Second, will relations be managed on the basis of the minimum common denominator or will it be possible to develop a relationship based on upgrading common interests and even possibly on the basis of shared values?

Both the Cold War and the Isolationalist/Fortress America images perceive a strategic environment where cooperation would remain based on the minimum common denominator and where uncertainty and mistrust would be the norm. The avoidance of direct military conflict, especially the avoidance of nuclear war, would remain the central issue around which agreement would coalesce and East-West relations would be managed with this as the central objective. Modified Detente would allow for a greater emphasis on cooperation even though strategic competition would remain a central feature of the relationship. Yet, some form of Modified Detente would allow for relations to be conducted with the view to upgrade common interests from the military, political, economic and even social perspectives. Of the four competing images, only the Security Regime image would allow for East-West relations to be managed in a manner which would allow for shared values to emerge as important. Given the fundamental political and ideological differences between East and West the prospects for a shared value approach to the management of relations, however desirable in principle, would appear unlikely.

The Cold War image suggests that the superpowers would remain the respective leaders of an alliance system where other members could only influence the management of East-West relations at the margin. For Canada, the traditional role of marginal broker would be retained and continued emphasis on consensus building and solidarity within NATO would be the central features of Canada's approach to intra-alliance issues. The Isolationist/Fortress America image has two quite different potential implications for Canada. In terms of East-West relations there would be less room to influence American policy and behaviour as the United States would be less amenable to any form of external influence. By the same token the Soviet Union and European states would be more likely to perceive Canada, in geo-strategic terms, as part of Isolationist/Fortress America. This image is not based on the dissolution of NATO even though such a possibility could become reality. Thus, should a Canadian government so decide, there could be an important role for Canada in the management of intra-alliance relations. However, this image poses the real danger that Canada would become even more the 'odd man out' within the Alliance, especially if the European response is to move more in the direction of Europeanization for security purposes.

In theory, the Modified Detente image offers Canada considerable scope to influence East-West and intra-alliance relations as the superpowers and members of both NATO and the WPO are functioning within a strategic environment where proposals to upgrade common interests are more likely to be favourably received. Thus Canada's traditional emphasis on the desirability of bridge-building could contribute to a more stable and cooperative East-West strategic relationship. This

presumes, of course, that Canadian policymakers would become more committed to proposing change than is currently the case. Finally, the Security Regime image holds out the prospect for a wide range of proposals to manage East-West relations on the basis of shared security values, but would require a leadership role of considerable magnitude. Given Canada's traditional role of 'follower' within the Alliance it is unlikely that a Canadian government would assume such a role.

From the perspective of strategic doctrine both the Cold War and the Modified Detente images suggest that existing strategic doctrines would be retained. The United States and Canada would continue to rely on the American strategic deterrent as their primary means of security. Mutual (Soviet-American) deterrence would not be fundamentally altered. NATO and European security would remained based on both nuclear and conventional capabilities and the European members of NATO would probably press to retain the strategy of flexible response. The current problems which accompany extended deterrence would, depending upon changes in military technology and future deployments of nuclear weapons, continue to arise. Strategic stability would not necessarily be affected adversely even though strategic competition would be an essential feature of East-West relations.

The Isolationist/Fortress America image, however, has disturbing doctrinal implications. There would be considerable pressure within the United States to pursue weapons developments and deployments directed towards the pursuit of unilateral deterrence as the basis of American strategic doctrine. Should unilateral deterrence become the objective, the acquisition of defensive strategic assets to ensure American invulnerability would probably become a priority - SDI deployments could proceed without consultation. Soviet fears of an American first strike capability would be accentuated, the strategic arms race would proceed unabated and strategic stability could be seriously eroded. From the European perspective, the American-European strategic relationship could be substantially altered. Extended deterrence could be seriously called into question and NATO's strategy of flexible response could be undermined as the American security guarantee would be less credible.

The Security Regime image also has important implications for strategic doctrine. The United States and the Soviet Union presumably could agree explicitly on mutual deterrence based on credible second strike capabilities at the lowest possible force levels consistent with strategic stability. For NATO and the WPO there could be a transition in the direction of exclusively defensive doctrines with mutually agreed upon force levels and structures which could be substantially lower than those that currently exist. While both nuclear and conventional capabilities would probably be retained, no first use and strategies of equivalent response could be adopted by both alliances. The transition to more defensive military doctrines at lower and more stable force levels would have to managed in such a way as to alleviate concerns about strategic uncertainty and instability.

For Canada, both the Cold War and Modified Detente images would suggest that Canada's security policy and objectives would remain closely aligned with those of the United States and NATO. Presumably either future Liberal or Conservative governments would continue to support American strategic doctrine and would continue to contribute to the viability of the American strategic deterrent. Similarly, Canadian governments would probably follow NATO's lead and

support flexible response. However, should the Isolationist/Fortress American image - along with unilateral deterrence - prevail Canada would face a number of serious policy dilemmas. Geo-strategically, Canadian territory would be perceived as more important by the United States and the pressures to support shifts in American doctrine would be considerable. Strategic defence issues could not be ignored as an American administration would probably insist that Canada become more actively involved. On the other hand, there would even less support from some segments of the attentive public for Canadian-American defence cooperation. While a Canadian government could articulate a more independent military strategy it remains unclear how Canada would ensure its long term security in such an unsettled and uncertain strategic environment. The Security Regime image does not pose the same types of dilemmas as Canada could follow the lead of the major powers and NATO.

Historically there has been a linkage between the role and importance of arms limitation and the strategic environment. During the height of the Cold War arms limitation was not particularly important to the superpowers, but this changed during the period of detente in the 1970's. The prospects for arms limitation were not propitious when East-West relations were in disarray during the early 1980's, but as relations became more accommodative there has been substantial progress. Obviously arms limitation negotiations and agreements need not be hostage to the state of East-West relations and the strategic environment; but, the prospects for success are affected.

The Cold War image might best be correlated with the use of arms limitation as a potential means to gain unilateral military advantage. The START and INF proposals of both the Americans and Soviets during the early 1980's appear to confirm this proposition. Similarly there is a role for arms limitation within the context of the Isolationist/Fortress America image, but the objective would also be the pursuit of unilateral advantage. Consequently the prospects for militarily meaningful agreements which are mutually advantageous are poor. However, the Modified Detente image suggests that mutually beneficial agreements can be reached in order to increase strategic stability and international security. The Security Regime image goes even further and holds out the prospect for agreements to be based on shared values. Irrespective of the nature of the strategic environment the primary purpose of arms limitation should be to pursue military-strategic stability at lower force levels in order to enhance international security.

It remains clear that Canada and most members of NATO only have a marginal impact on East-West arms limitation even though the impact is greater in multilateral fora such as the CDE as compared to superpower fora. Canadian arms limitation objectives, if and when articulated, are thus more likely to be taken into account should the Modified Detente or Security Regime image prevail. The case of the Isolationist/Fortress America image raises interesting possibilities. On the one hand, an American administration would be unwise to reject Canadian proposals given the geo-strategic unity of the continent. On the other hand, the Soviet Union would be unlikely to accept American proposals if based on unilateral security objectives. In the final analysis the scope for Canada to influence the outcome of Soviet-American arms negotiations remains limited.

The four competing images hold out different and important implications for Canada's approach to linkages between security and sovereignty with the Arctic being the best example. The Cold War image foresees the Arctic as an area of increasing strategic competition and potential conflict. Canada's 1987 defence white paper indicates that the Arctic region could shift from being a superpower 'buffer' to becoming a potential 'battleground'. For the Conservative government Canada must acquire the military assets to cope with an expanded northern security threat as well as challenges to Canadian sovereignty - thus a major rationale for the proposed SSN fleet. In addition, the government has rejected arguments that limitations on SLCMs and ALCMs should be a major and central component of Canada's approach to arms limitation. Thus there is not much hope for arms limitation as a means to enhance Arctic security.

With the Modified Detente image, the Arctic would still assume greater strategic importance given changing military technologies and continued East-West strategic competition. However, the range of military options and assets conceivably could be moderated by some arms limitation agreements and confidence-building measures. This would require changes in Canada's arms limitation priorities and there would have to agreement among Canada's NATO allies - especially the United States - that this approach would enhance North American and Western security. This scenario assumes a more balanced approach between the cooperative and competitive aspects of security than is outlined in the 1987 defence white paper. More emphasis could be placed on international law and diplomacy; Canada would still require both passive and active defensive assets for both security and sovereignty purposes.

The nature of the arms limitation and confidence-building measures for Arctic security could have a direct impact on the range of required military assets. In the absence of such arrangements the range of proposals contained in the defence white paper can be justified on military-strategic grounds. Given statements by Mr. Turner, a Liberal government would not proceed with the acquisition of SSNs, but apparently would support the view that Canada's northern military capabilities would have to be upgraded for both defence and sovereignty purposes. The difficulty is that the Liberals have also called for the demilitarization of the Arctic and this underlying contradiction in the Liberal approach to Arctic security would have to be addressed. The New Democrats face a similar dilemma, but would be more inclined to emphasize demilitarization as their preferred approach.

From the perspective of Canadian national interests in the Arctic the Isolationist/Fortress America image constitutes the worst-case scenario. There would be even greater pressure on Canada than is currently the case to provide a security guarantee for America's northern frontier. It is difficult to foresee Canada independently providing such a guarantee. Even if this were deemed economically and politically feasible, there would be even greater emphasis on the need for Arctic-related security measures in a strategic environment fraught with the uncertainties of unilateral security. Under these circumstances, the degree of Arctic militarization could be more extensive than that currently envisaged in terms of both passive (surveillance) and active (control) defence capabilities. In addition, pressures for Canada to participate actively in SDI would increase and the prospects for Arctic arms limitation would be even less than is currently the case.

The Security Regime image constitutes the best-case scenario as the current projections for the deployment of military assets in the Arctic could be revised substantially. The major requirements would be sovereignty-related capabilities as the threats to North American security would be less apparent than is currently the case. In theory, it would be possible to contemplate a cooperative political, economic and military regime for the circumpolar Arctic region. There would still be a Canadian, and possibly joint Canadian-American, requirement for the retention of passive defensive capabilities for both sovereignty and security. However, there would be little need for SSNs for the Arctic or for the Atlantic and the Pacific for that matter.

In terms of European security and Canada's role within NATO, both the Cold War and the Modified Detente images suggest that some form of the status quo would prevail. In the case of the former it is somewhat easier for political leaders and NATO officials to argue that the Soviet military threat requires a vigilant and cohesive alliance with full American and Canadian participation. Yet in both cases the continued commitment of the United States and Canada to the security of Europe would be in the security interests of both states as well as that of NATO. Military-strategic interdependence would remain a necessity.

The Isolationist/Fortress America image would foresee the political and military withdrawal of the United States from Europe. This would reduce substantially, if not eliminate, the American security guarantee. Similarly, it could reduce moderating influences on American behaviour vis-à-vis the Soviet Union. American withdrawal could lead to the dissolution of the existing East-West de facto security system, but not necessarily ensure a viable European structure as a replacement. Canada could be placed in the unenviable position of having to chose between our European allies and the United States. Of course, American withdrawal would make it politically very difficult for a Canadian government to make a persuasive case that Canadian Forces should remain in Europe. The Security Regime image could also lead to American and Canadian military withdrawal from Europe. In this case, however, the Soviet military threat to Europe would be minimal and the military requirements would be such that the European members of NATO could ensure European security. Nevertheless, both Canada and the United States could well remain committed to the defence of Europe and could be active participants as members of the regime. The possibility exists, of course, that European security arrangements will evolve in a manner which places greater emphasis on the Europeanization of the defence of Europe irrespective of the nature of the strategic environment. Should this occur there will be pressures within the United States for at least a partial military withdrawal.

A further security consideration which stems from the competing images concerns force postures and structures. Both the Cold War and the Modified Detente image suggest that NATO's existing force postures and structures would be retained. Deployments along the Central Front and the forward defence of West Germany would remain a major priority for NATO. Maritime assets for general purpose sea control to ensure the reinforcement of Europe would also continue to be a priority. Force levels could, of course, be reduced if NATO and the WPO reached agreement on a conventional arms treaty. With the Isolationist/Fortress America image, however, the Europeans would have to consider how to fill the gaps in the Central Front and how to deal with an augmented Soviet air threat as a result of the loss of American and Canadian air assets.

For Canada, the Isolationist/Fortress America image could require a reconfiguration of the Canadian Forces in order to upgrade contential air defence capabilities, but there would be no military requirement for heavy mechanized or armoured land units. Canada's maritime defence requirements would remain substantially unaltered as sea denial capabilities would still be required to ensure the security of Canada's three oceans. Yet there could be greater pressure from the United States for Canada to acquire more naval assets to help counter the Soviet maritime threat.

The Security Regime image, as previously noted, could allow for a shift in strategic doctrine, but the European members of NATO would still require force postures similar to those which currently exist. Nevertheless, force levels could be reduced substantially and existing units could be re-equipped and reconfigured more exclusively for defensive purposes. For Canada the Canadian Forces could also be reduced in size and a higher priority allocated for sovereignty roles and missions. This would reduce the current emphasis on military roles and missions in favour of the quasi-military and non-military. Adequate air defence capabilities would still be required. The need for international peacekeeping would remain and presumably this would become the raison d'etre for the Canadian Army. The Canadian Navy could be structured and equipped to perform naval presence roles and missions as their primary defence activity.

In light of the above, the implications for defence spending should be obvious. Both the Cold War and Modified Detente images lead to the conclusion that defence spending in the West could remain at approximately current levels. Yet should the Cold War image prevail there would be continued pressures from the United States on the Europeans to increase allocations and burden-sharing would continue to be a problem. The latter issue would also remain with Modified Detente, but pleas to increase defence spending would be received with even less enthusiasm. For Europe, the Isolationist/Fortress America image represents the worst case scenario as there would be a military requirement to increase defence spending. For the United States and Canada financial savings would accompany military withdrawal from Europe and these monies could be allocated to upgrading continental defence capabilities. Needless to say, the Security Regime image holds out the prospect for ensuring the security of the West at lower levels of defence resources than is currently the case. The level of defence spending would, of course, depend on the nature of the East-West security regime.

Finally there is the issue of reassurance as a component of Western security. The events of the late 1970's and early 1980's led to wide spread concern in Europe, Canada, and to a lesser degree in the United States, over reassurance. For some segments of the general publics NATO's policies and weapons deployments posed as much of the threat to the West as they did to the Soviets and the WPO. From a reassurance perspective the Security Regime image represents the best case while the Cold War and the Isolationist/Fortress America images represent the opposite. Irrespective of which image prevails political leaders and NATO officials would be wise to devote greater attention to the reassurance of their publics than has often been the case in the past. Without continuing support from the public the security interests and objectives of the Western Alliance are more difficult to achieve and sustain. The situation is complicated by the lack of strategic consensus within the West and thus reassurance will remain a problem.

Future Prospects

The best that can be said as of late 1988 is that the future remains, as is usually the case, uncertain. There are some indications that a return to Modified Detente may be possible, but American neo-isolationism continues to garner support. In the short-term the perceptions which underlie the existing strategic environment are likely to prevail, but they could give way to a more accommodative approach to East-West strategic relations. In the absence of sound American leadership it is even more encumbent upon other members of the Western Alliance to exercise the necessary political leadership in the search for a more peaceful and secure international environment.

In the long-term some form of East-West Security Regime would be in the best interests of both East and West. Efforts to move towards this solution will, of course, depend upon the long-term strategic assessment which prevails in Moscow. For the West it is still too early to pass judgement one way or the other on the Gorbachev regime. There are indications that the Soviet Union may be serious about altering the existing East-West strategic environment. Soviet military doctrine may shift towards a meaningful defensive orientation. There has been a strong Soviet emphasis on enhanced confidence-building measures as an important aspect of security policy in order to lower levels of potential military confrontation and to reduce the threat of surprise attack. Those Soviet proposals which advocate greater normalization in East-West relations should be encouraged and supported. However, given the history of East-West relations wishful thinking should not be a substitute for prudence and caution.

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**Rome Workshop Paper November 1988**

# Non-Offensive Defence and European Arms Control

**Draft Copy**[1]

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This paper explores the extent to which the adoption of new conventional military "doctrines" featuring a demonstrably "less-offensive" character (in terms of equipment, deployment, strategy and training exercises) can be a part of the conventional arms control process in Europe.[2] The arms control

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1. Not for circulation or citation.

2. It should be recognized that the use of the term "doctrine" can be somewhat misleading, particularly when it is applied simultaneously to both Soviet and Western military policy and to that policy at different levels of generality. The Soviets consider doctrine to be "a system of views on the nature of war and methods of waging it, and on the preparation of the country and army for war, officially adopted in a given state and in its armed forces." Harriet Fast Scott and William F. Scott, **The Armed Forces of the USSR** Second Edition (Boulder: Westview Press, 1981), p. 37. Doctrine, from the Soviet perspective, is "superior" to both military science and military art. Military art is comprised of the relatively familiar strategy, operational art and tactics. An American appreciation defines doctrine as the "working principles that guide and provide uniformity to applications of military power and the employment of military force under given conditions..." John Collins **U.S.-Soviet Military Balance.**

When used in the context of non-offensive defence proposals, it is not clear whether the appropriate usage is doctrine or strategy. Some discussions of non-offensive defence descend past even the strategy level to discuss tactics. It is probably the case that we can speak of a non-offensive defence "doctrine" (the overall conception of how forces are to be configured and how they would be used if war broke out); a non-offensive defence "strategy" (the basic plan for the overall employment of those

processes discussed here are the Stockholm CCSBMDE follow-on (the so-called "CDE 1B") and the Conventional Stability Talks (CST) which have grown out of the MBFR.[3]

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forces) and non-offensive defensive "tactics" (specific plans for the operation of working portions of those forces). Unfortunately, some discussions of non-offensive defence blur these distinctions. This confusion and/or imprecision can have consequential effects on the success of any future doctrine negotiations.

3. The Conference on Security and Cooperation in Europe - the **CSCE** - is the parent process to the Stockholm Conference on Confidence- and Security-Building Measures and Disarmament in Europe - the CCSBMDE. The **CCSBMDE** is typically referred to by an informal, much shorter and earlier acronym, the **CDE** - which stands for the Conference on Disarmament in Europe. In as much as the CCSBMDE follow-on negotiations are almost certainly going to concentrate on additional, second generation confidence and security building measures - CSBMs - and defer direct consideration of disarmament issues, the informal acronym **CDE 1B** is used in this paper to designate the second set of negotiations.

The acronym **MBFR** stands for Mutual and Balanced Force Reductions although the formal title of the negotiations is the Vienna Negotiations on the Mutual Reduction of Forces and Armaments and Associated Measures in Central Europe. It is the largely unsuccessful precursor process to what is typically called the Conventional Stability Talks or **CST** that are expected to address issues of East/West conventional force asymmetries and stability problems in Europe.

Because arms control is typically understood to entail efforts to reduce the chance of war occurring, or its severity if it should occur, there appears to be no good practical or theoretical reason to exclude (as many analysts do) confidence building measures (CBMs) from the broad range of arms control options. The fact that CBMs do not involve actual force reductions constitutes inadequate grounds for exclusion because many examples of "arms control" also fail to eliminate weapons. The reluctance to consider confidence building measures or agreements as examples of arms control tends to (1) improperly restrict what can count as arms control; (2) denigrate the importance of confidence building; and (3) obscure the gray area where substantive **constraint** CBMs (for instance, limits on the placement of equipment, the types of permissable military exercise, and the size of military activities) clearly impose more "arms control" on military forces than do modest force reductions. It is far more productive to recognize that CBMs encompass a wide range of individual measures (some very modest and "soft," some very demanding and constraining) that properly belong to the broader category of arms control measures. Although some CBMs

The paper begins with an examination of various types of "non-offensive defence"[4] proposals - defensive arrangements that are deliberately designed to pose little visible or actual threat of offensive action but which nevertheless promise to effectively discourage and/or defeat attack by employing strictly or predominantly defensive strategies, forces and equipment. This critical examination concentrates on several prominent Western models (including the "modified Afheldt" plan, the "SAS" plan, and the Muller-Karkoszka Pugwash proposal) but also includes a discussion of recent Soviet and East European thinking on this subject (including the Jaruzelski plan). Part of this examination includes an assessment of how effective these doctrinal modifications would be, how likely they are to be adopted and how easily their adoption could be monitored and verified. This last aspect is particularly important from a confidence building perspective. This section includes a brief discussion of contemporary NATO and WTO policy by way of providing a comparative context for the analysis of alternative policies.

The paper then very briefly explores the two Eurocentric arms control processes - the CST and the CDE - providing a cursory introduction to their basic natures and histories. It attempts to see how "less-offensive" and "non-offensive" defensive arrangements might (1) influence the two arms control

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are ineffectual in terms of substantive "bite," so are symbolic force reductions and some other examples of traditional arms control such as test limitations and "modernization" bans. This hardly disqualifies the latter and should not disqualify the former as examples of arms control measures.

4. The term of preference in this paper is "non-offensive defence" although "non-provocative defence" is also frequently employed to characterize these proposals.

processes as an external factor; (2) grow out of the arms control processes as a product of their deliberations; or (3) emerge as the subject of a parallel and related negotiation. Part of this examination involves the discussion of whether or not the adoption of defence-oriented doctrines and deployments could be integrated into either the CST or CDE 1B. By way of exploring the scope for inclusion in one or the other of the two arms control processes, an effort is made to anticipate the basic outlines of eventual CST and CDE 1B agreements. By gauging the likely content of both agreements, one can make an estimate of whether or not the negotiation of doctrinal transformation could be an important part of either one.

The tentative conclusion of the paper is that some form of **moderate** re-orientation toward a "less-offensive defence" doctrine has a good deal to recommend it. The potential value of negotiating significant shifts in defence policy is seen to be substantial, particularly when viewed from a confidence building perspective where doctrinal reconfigurations can have a great impact.[5]

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5. The understanding of confidence building used here is drawn, in considerably revised form, from James Macintosh, **Confidence (and Security) Building Measures in the Arms Control Process: A Canadian Perspective** (Ottawa: Department of External Affairs, 1985). The definition presented below is an improvement over most efforts although two components remain uncertain. The possibility of non-state generated CBMs is unresolved as is the status of "unilateral" CBMs. Nevertheless, for our purposes, this is an entirely workable definition **stressing the functional characteristics of confidence building**. Note that this definition does not explicitly distinguish amongst (1) a negotiating process; (2) an arms control agreement; or (3) a particular measure (in an arms control agreement). A definition of this sort, however, does **not** tell us very much about **how** confidence building works. That requires a substantial explanation focusing on the psychology of perceptions of intent.

(1) Confidence building is a variety (or dimension) of arms control typically entailing

(2) state actions

There are, however, clear limits on what is feasible. Radical reformulations are seen to be neither safe nor plausible policy options, particularly if pursued on a more-or-less unilateral basis. Indeed, they could be dangerously counter-productive, introducing unintended elements of instability into the NATO/WTO military relationship. On the other hand, less radical adjustments to existing defence policies on both sides of the Inter-German border promise significant advantages as long as the process of transformation is cooperative, multilateral and monitorable. In particular, the confidence building contribution in drastically reducing the grounds for fears about (1) surprise attack and (2) the actual capacity to engage in any sort of offensive ground operations is unparalleled. This is the special value of any serious "doctrine talks." Indeed, such talks could be regarded as the ultimate confidence building negotiation.

However, neither Eurocentric conventional arms control forum can easily accommodate serious discussions aimed at the introduction of "less offensive" military policies. The paper argues that a new forum is almost certainly going to be necessary in order to pursue what seems to be a very important step in

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(3) that can be (in principle) unilateral but which are typically either bilateral or multilateral

(4) that attempt to reduce or eliminate misperceptions of and concerns about potentially threatening military capabilities and activities

(5) by providing verifiable information about and advance notification of potentially threatening military activities

(6) and/or by providing the opportunity for the prompt explanation of worrisome military activities

(7) and/or by restricting the opportunities available for the use of military forces and their equipment by adopting verifiable restrictions on the activities and deployments of those forces (or crucial components of them), frequently within sensitive areas.

the progressive improvement in East-West and East-West-NNA relations. Neither the CST nor the CDE are seen to be well-suited to the inclusion of "doctrine talks" per se although the CDE could support a non-central discussion of doctrinal transformation issues and the CST will deal with related substantive issues. It is also true, however, that a CDE as well as a CST agreement would assist in the overall implementation of a separately negotiated doctrinal transformation. The former by creating a regime of information and communications measures and the later by addressing existing conventional force asymmetries. In a slightly controversial vein, the paper also argues that doctrinal adjustments are likely to be more effective in terms of improving the fundamental tone of NATO-WTO conventional military relations than is any probable contribution by either a CST or CDE 1B agreement. What is less clear is whether doctrine talks could only follow the successful completion of a CDE 1B and a first phase CST - or whether they would all have to be undertaken simultaneously.

**Non-Offensive Defence**

No attempt can be made here to synthesize what is an extensive and involved literature.[6] Instead, only a rudimentary introduction is undertaken. This should be adequate, however, to the purpose of exploring the arms control potential of this collection of proposals and ideas. The first point to make is that these ideas have a disparate background and cover a good deal of intellectual ground. By and large, they are the product of the European peace

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6. An excellent introduction is to be found in the September 1988 issue of the **Bulletin of the Atomic Scientists.** A great deal of information can be gleaned from the **Non-Offensive Defense International Research Newsletter** published by Copenhagen Centre of Peace and Conflict Research.

research community[7] but a more restrained variant can be identified in some North American ideas originating in the critical strategic studies community.[8]

At the risk of imposing more order and consistency on this body of literature than is warranted, it nevertheless seems fair to say that the predominant motivation underlying virtually all of the non-offensive defence literature is a concern over the current trend in NATO and WTO conventional military doctrine, deployments and equipment developments. The movement toward increasingly unstable policies with the introduction of FOFA as the current variant of NATO doctrine and (despite public claims to the contrary) the continued refinement of a heavily offensive Soviet/WTO doctrine has lead many analysts to worry about the inherent instability of the European conventional military relationship. According to most of these analyses, there is an increasing incentive, in the midst of a crisis, in "going first" - of striking pre-emptively to destroy adversary offensive capabilities before they are used - if there is a strong hint that conflict is about to occur. This is typically seen (correctly) to be a destabilizing situation. Thus, much analytic effort has been devoted to (1) attempting to determine the state of the conventional military balance in Europe (essentially to answer the question "Is FOFA, CDI and "Deep Strike" necessary?") and (2) devising less destabilizing methods of providing effective defence in Europe.

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7. A solid example is Anders Boserup. See his "Non-Provocative Defence in Europe" in Derek Paul, ed., **Defending Europe: Options for Security** (London: Taylor and Francis, 1985).

8. Here, a good illustration is John Mearsheimer. See **Conventional Deterrence** (Ithaca: Cornell University Press, 1983).

A non-offensive or non-provocative defence structure (that arrangement of forces and doctrine employing a non-offensive defence) has been defined as being a "structure which poses no threat to the opponent on his own territory, which is immune to destruction by pre-emptive attack, which has a reasonable chance of successfully denying the opponent hostile access to the defended nation, and which would produce minimal damage to the defending society in the process of repelling an invasion."[9]

It might be helpful at this point to examine some specific proposals in order to gain a better sense of what they offer. One of the most famous non-offensive defence proposals is that of Horst Afheldt. Originally developed in 1976, it has undergone some revision in the intervening years and currently calls for three elements:

(1) "a network of light infantry commandos equipped with modern weapons" (SAMs and ATGMs) approximately 70 to 100 km deep;

(2) "a network of rocket artillery" relying upon small rocket launchers equipped with one or two rockets and concealed in depth. These rockets would have ranges of 20 to 40 km (and perhaps less) and would be deployed in thick depth (a figure of five 40 km rockets per square kilometre has been suggested);

(3) "a communications and information network connecting the commandos with each other, with the rocket artillery, and with middle- and high-ranking staffs."[10]

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9. Alvin M. Saperstein, "Primer on Non-Provocative Defense," **Arms Control**, Vol. 9, No. 1 (May 1988), p.65.

10. Horst Afheldt, "New Policies, Old Fears," **Bulletin of the Atomic Scientists** (September 1988).

The "SAS" or Study Group on Alternative Security Planning (under the leadership of Lutz Unterseher) has presented a plan for non-offensive defence that is similar to the Afheldt Plan in some respects (it too calls for the deployment of a "web" of light infantry equipped with ATGMs). However, it also relies on more conventional armoured formations ("spiders"), but of limited mobility that would back-up the web of light infantry. This plan calls for the creation of a "web" of 450 dispersed West German light infantry battalions (approximately 300,000 personnel) that would fight from multiple hardened sites. Mine fields and some automated guns would also be employed. The mobile "spider" component would be made up of 150 battalions (half German) and would number approximately 200,000 personnel. This force would be split amongst armour, mobile infantry and anti-tank cavalry. They would have essentially no logistic support to permit counter-attacks into neighboring territory. This proposal has apparently generated some interest within NATO.

The von Muller-Karkoszka plan grew out of a Pugwash working group's deliberations. It calls for an equipment reduction to 50% of the level of the inferior side (in order to address existing asymmetries) as well as specific limitations on force density and mobility, thus limiting the capacity of existing forces to engage in offensive action. For instance, the authors of this proposal have suggested a ceiling of 10,000 modern tanks per side for the whole CST mandate area with an additional limitation of no more than 500 tanks per 10,000 square kilometers. Similar ceilings have been suggested for self-propelled artillery over 100 mm calibre and rockets of similar diameter. In addition, the authors have proposed a low ceiling of 500 strike aircraft and 500 armed helicopters. The proposal also suggests a ban on ammunition stockpiles within 150 km of the NATO/WTO border and a ban on the forward

basing of bridging equipment. There would be effectively no limit on the acquisition of barrier technology, ATGMs and other systems having a range of under 50 km.[11]

The comprehensive proposal advanced by Poland's Wojciech Jaruzelski contained a number of elements, including the explicit movement toward defensive military doctrines and major "offensive force reductions." Several Soviet proposals have also discussed these notions (General Secretary Gorbachev, for instance, in his 1986 speech to the Communist Party Congress) but not in any detail.

Some of the proposals for implementing non-offensive defence appear to have practical problems. Most notably, they rely too heavily upon man-portable anti-tank guided missiles (ATGMs). It is far from clear that any man-portable ATGM will ever again be capable of defeating the current generation of Soviet armour which employs a variety of techniques to minimize hollow charge assault. The combination of reactive over composite armour, for instance, gives every indication of having seriously weakened NATO's capability to attack Soviet T-80 and newer tanks (as well as, probably, some T-64 and T-72 variants) with **any** type of ATGM. A second concern with this scheme is

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11. Not included here is Hannig's Firewall (developed by Norbet Hannig) which envisions the creation of a literal firebreak along the East-West border. Any attempt to cross the border would result in the uninhabited barrier being saturated with fire from rockets. Another proposal not discussed above is the "wide area territorial defence" scheme developed by Major General Jochen Loser. It relies on various types of barriers and obstacles intended to canalize attacking forces. There are other proposals that essentially blend the existing NATO policy with the addition of various types of obstacles intended to radically retard any WTO advance. Properly, these don't quite qualify as non-offensive defence because they retain too much offensive capability. These descriptions, like those in the preceding text draw heavily on the non-offensive defence special issue of the **Bulletin of the Atomic Scientists** (September 1988).

the extreme vulnerability of PGM militia to concentrated artillery fire. The feasibility of relying upon PGM militia in so hostile an environment seems highly questionable. This could be heightened further by combining large forces of mechanized infantry with mobile artillery. This is true, of course, only if an opponent continues to field conventional forces of the sort currently seen in Central Europe on both sides of the Inter-German border. Some critics have also pointed out that even the most sophisticated of the non-offensive defence proposals lack - virtually by definition - any real capacity to recapture lost territory. Again, this is relevant complaint particularly when an adversary retains forces similar to those currently deployed by the WTO and NATO. Even with radically reconstructed, defence-oriented forces, this might remain a serious concern although the retention of some offensive capability - as in the von Muller-Karkoszka Pugwash plan - speaks effectively to this potential problem. A further complaint which may or may not be relevant to non-offensive defence schemes is the reliance on "advanced technology" to solve target acquisition and communication problems. This possible over-reliance could be seen to undermine at least some NOD proposals. These technologies may not deliver the results that many hope for. However, this is probably a more relevant criticism for current NATO and WTO doctrines which are going to rely increasingly on extremely sophisticated technologies for a whole host of capabilities in a rapidly evolving, high speed offensive-oriented war. An additional problem that partially undermines the basic logic of non-offensive defence proposals is the virtual certainty that a good deal of combat could be expected to occur in cities, due to the degree of urbanization in Central Europe. Non-offensive defence proposals tend not to address this directly and focus, perhaps unrealistically, on the desire to avoid

widespread societal destruction. This may not be a practical possibility. A final concern is a tendency not to concentrate on the impact that modern airpower could have on a NOD-configured defence.There are several other problems that are not so easily dismissed.

Many of these concerns can be mitigated considerably if all states in both alliances (as well as the NNAs) participate jointly in the transition from the current offensive regime to a new, non-offensive defence regime according to a common timetable, rules and definitions. Such a transition would see the marked reduction of armour-heavy forces deployed near the frontiers of potential adversaries. Indeed, it seems that this is the only way to escape from what many recognize is an increasingly unstable military relationship in Europe.[12] The recent Soviet proclamations about the adoption of a "defensive defence" doctrine certainly seem to provide an opportune occasion to pursue these possibilities.[13] But how and where are these possibilities to be explored? An obvious answer is either within or in association with the two on-going Eurocentric conventional arms control processes.

**The CST and the CDE**

The two principal current arms control negotiations in Europe have substantially different foci. The CDE is concerned with confidence building while the CST is likely to be concerned primarily with force reductions.

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12. It should be stressed here that the East-West political relationship is far more stable than the underlying military relationship and gives every indication of continuing to improve. This tends to obscure the need to address both asymmetry problems and doctrine problems.

13. For a useful discussion of this, see: Gloria Duffy and Jennifer Lee, "The Soviet Debate on 'Reasonable Sufficiency'," **Arms Control Today** (October 1988).

Although this oversimplifies the character of the two, it captures their basic nature reasonably well.[14] Each is likely to be able to contribute certain things to the growth and refinement of a Eurocentric security regime. However, there are pragmatic limits to what each can achieve - and limits to what the two can achieve together. This means that additional approaches may have to employed to help address some of the underlying problems that trouble relations amongst various of the CSCE states. In fact, it is the main point of this paper that neither forum can reasonably support the negotiation of doctrinal transformation.

The original MBFR and CSCE processes emerged from contending efforts to structure East-West Eurocentric security discussions in the mid- to late 1960s.[15] The contention grew out of contrasting and generally inconsistent

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14. Indeed, I have argued elsewhere that both negotiations have a significant confidence building character and that that shared confidence building character creates some unique and generally unrecognized limitations and constraints. Chief amongst them is the need to recognize that the two processes can interact with each other and undermine the implicit confidence building process in which each is inextricably involved. This is most noticeable in the case of rigorous CST verification standards undermining the natural growth of confidence in the essential non-hostility of all CSCE states. The main point here is that the CST negotiations have an important if frequently unappreciated confidence building character.

15. It is reasonable to argue that the road to both the MBFR and the CSCE/CDE began with the emergence of the Brezhnev/Kosygin leadership in the Soviet Union in 1964. The new Soviet leadership undertook to improve the basic tone of East-West relations in order to achieve a number of domestic and foreign policy objectives (including increased access to Western technology and diminished American influence in NATO - and Europe, more broadly). At least some of the circumstances of that period bear an interesting similarity to the contemporary Soviet predicament. In keeping with this shift, the Warsaw Treaty Organization's Political Consultative Committee proposed conferences in 1964, 1965, 1966 and again in 1967 to discuss European collective security. This more conciliatory tone in Moscow (combined perhaps with a growing realization within Germany that reunification was not going to occur in the foreseeable future) prompted the

Soviet, American and NATO European (and, eventually, NNA European) concerns and objectives. Despite what was probably a common interest in reducing the chance of conflict in Europe, the various parties saw enhanced security being achieved in different and sometimes incompatible ways. However, the Soviet interest in regularizing the post-war boundaries of Europe and Western interest in reducing troop levels and defence expenditures in Europe (primarily, in the American case, because of increasing Vietnam War commitments) constituted the basis for generating two distinct approaches to European security conferences.

These two offsetting objectives and approaches lead to an obvious compromise. The Soviets agreed to the creation of MBFR which focused on conventional force reductions. In return, the West agreed to create the CSCE process which addressed a number of broader political considerations. This spawned two distinct processes that, together, dealt with the bulk of East, West and NNA foreign policy concerns.

**The MBFR**

The MBFR's formal beginnings can be traced to the Harmel Report of 1967 and the NATO Ministerial Declaration of 1968 (the "Reykjavik Signal").[16]

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Federal Republic of Germany to develop proposals of its own, beginning in 1966, for conferences dealing with European security issues. The largely unilateral German opening prepared the way for broader Western efforts and the eventual CSCE/CDE and MBFR/CST process.

16. For a useful background on the MBFR negotiations, see: Jonathan Dean, **Watershed in Europe - Dismantling the East-West Military Confrontation** (Lexington and Toronto: Lexington Books, 1987); John G. Keliher, **The Negotiations on Mutual and Balanced Force Reductions: The Search for Arms**

The Harmel Report concluded that a political accommodation with the Warsaw Treaty Organization (WTO) was vital and that a central feature in the accommodation would have to be a conventional force reduction "arrangement" of some sort. It thus expanded the responsibilities of NATO to formally include the pursuit of stability through arms control, a major adjustment in NATO's mandate. The June 1968 Ministerial Declaration further expanded this responsibility by specifying general reduction principles. The road to the MBFR negotiations, delayed temporarily by the Soviet invasion of Czechoslovakia, was further stalled by the subsequent inability to agree on the basic nature of the desired negotiations. However, a combination of diplomatic manoeuvres[17] in 1970 and 1971 set the MBFR talks on their final course and

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**Control in Central Europe** (New York: Pergamon, 1980); and Lothar Ruehl, **MBFR: Lessons and Problems** (London: The International Institute for Strategic Studies, 1982). More specific details on the negotiations since 1983 can also be found in the excellent **The Arms Control Reporter - A Chronicle of Treaties Negotiations Proposals Weapons and Policy** (Brookline, Maine: Institute for Defense and Disarmament Studies, annual, 1983 to the present). A broader and interesting perspective on MBFR and related arms control problems and issues can be found in Uwe Nerlich and James A. Thomson, eds., **Conventional Arms Control and the Security of Europe** (Boulder: Westview Press/RAND, 1988).

17. A number of these diplomatic manoeuvres were undertaken bilaterally by the Federal Republic of Germany as part of Ostpolitik. These and additional alliance-to-alliance efforts helped to resolve a number of outstanding problems impairing movement toward the different security conferences that the two sides desired. For instance, they (1) established the virtual certainty that post-war European boundaries would be recognized; (2) secured the participation of the United States and Canada in Eurocentric multilateral security discussions (what would become the CSCE); and (3) more-or-less assured the Soviets that there would be a CSCE-type conference to deal with broad political issues if an MBFR-type negotiation was also accepted. This "twinning" of the MBFR and CSCE was tentatively accepted in May 1972 during the Nixon-Brezhnev SALT summit. A useful overview of these developments can be found in Raymond Garthoff, **Détente and Confrontation - American-Soviet Relations from Nixon to Reagan** (Washington: The Brookings Institution, 1986), especially Chapters 4 and 14. For more detailed

established the parallel contingent process leading towards the CSCE.

These alliance-to-alliance talks, which finally began on 30 October 1973, have enjoyed no real success in their prolonged efforts to negotiate meaningful conventional force reductions within the Central European "Reduction Zone." The failure is ostensibly because of disagreements over basic counts of personnel in the reduction zone and questions about verification adequacy.[18] It is also true, however, that neither side has been particularly interested for some time now in pursuing an accord employing an approach - personnel reductions in the restricted central European area - that each feels is fundamentally flawed and not in its own interests. Neither side seems to believe that a crude personnel reduction in an arbitrarily limited (if important) region of Europe will solve important security problems that revolve around the types and numbers of military equipment and the numbers of personnel from the Atlantic to the Urals.

The possibility of negotiating an MBFR agreement ended with the Gorbachev proposal of 18 April 1986 (amplified by the 11 June 1986 Budapest statement). This Soviet proposal called for broader "Stability Talks" to replace the MBFR negotiations. The 11 June clarification indicated that the Soviets

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discussion, see William Griffith, **The Ostpolitik of the Federal Republic of Germany** (Cambridge: MIT Press, 1978).

18. The inability to agree on base-line personnel counts can be seen to be an artifact of a deeper problem - the Soviet unwillingness to seriously consider what would be for them asymmetrical force reductions. This view, however, tends to underplay the somewhat more complicated nature of the Soviet problem in agreeing to personnel counts. A significant part of this problem has been legitimate methodological differences as well as the Soviet desire to "discount" forces in eastern Europe that effectively serve a "counter-weight" if not outright garrison role.

were interested in achieving initial bloc reductions within Europe (from the "Atlantic to the Urals") of between 100,000 and 150,000 troops and eventual overall reductions of approximately 25% per side. This proposal, with its options of (1) attaching the new talks to the CSCE process; (2) continuing with the basic MBFR format; or (3) initiating a completely new forum has effectively killed any chance of a serious MBFR agreement but it has also created an opportunity for new talks with a much greater chance of addressing conventional force problems in Europe.

**Conventional Stability Talks**

The NATO reaction to the Gorbachev proposal was to create a High Level Task Force (HLTF) in order to develop a NATO response to the Soviet initiative. The HLTF worked from June until December 1986 to devise a NATO position which (despite major ongoing differences between France and the United States) was enunciated in the Brussels Declaration on Conventional Arms Control on 12 December 1986. That declaration, in effect, accepted the Soviet offer and proposed that NATO and the WTO begin new negotiations. The "Reykjavik Communique" of 12 June 1987 further detailed NATO's position with respect to the new negotiations.

NATO and Warsaw Treaty Organization negotiators began meeting in the so-called Group 23 sessions on 17 February 1987 in Vienna in order to devise a mandate for the CST negotiations. The principal points that have divided the two sides have been:

(1) the inclusion of tactical nuclear weapons, either purpose-designed or dual-capable;

(2) the inclusion of airpower (whether helicopters, strike aircraft or all tactical and/or dual capable aircraft);

(3) the inclusion of regions of Turkey, offsetting Soviet territory in the Caucasus; and the inclusion of offshore Atlantic islands such as the Azores, the Canary Islands and Madeira; and

(4) the relationship of the CST to the CSCE (i.e., whether the CST should report to or actually be a part of the CSCE process).

By the end of May 1988, the Group 23 negotiations had achieved general agreement on a mandate although some crucial compromises remain to be made. As 1988 draws to a close it is still not clear whether the mandate has been formally settled. The NATO CST position (affirmed during the March 1988 NATO summit) includes a requirement for substantial asymmetrical reductions in Eastern weapons "relevant to surprise attack;" alterations in deployment postures; the exchange of detailed information about forces and deployments; greater openness in military activities; and the adoption of a "rigorous, effective and reliable monitoring and verification regime." The Soviet/WTO position will likely stress the need to produce offsetting reductions in strike aircraft and other forms of airpower and will attempt to introduce proposals calling for the reduction of tactical nuclear systems, including dual capable artillery and aircraft. It may also seek to introduce limits of some sort on NATO (especially American) maritime forces although this is less certain.

It is a difficult exercise attempting to envision the nature of the agreement that will emerge eventually from the Conventional Stability Talks. The negotiations could prove to be as unproductive and frustrating as the MBFR or they may yield a speedy and substantial outcome. A "consequential"

agreement could take one of a number of fundamental forms[19] drawing on a vast array of possible measures and limits. One feature of virtually any plausible CST agreement's content is clear, however, and that is the predominate role that countering the appearance and fact of asymmetrical Soviet strengths will play if the agreement is to be anything other than symbolic. Although it is possible to exaggerate the degree of European conventional force asymmetry favouring the Soviet Union, it is nevertheless

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19. Several basic CST agreement types are imaginable if not necessarily equally likely. While recognizing that provisions identified with each of these types can appear together in a mixed final result, it is nevertheless true that an agreement is likely to exhibit an overall character that corresponds most closely to one of these basic agreement types. On initial examination, there appear to be three basic types of possible CST agreement (in terms of the predominant method employed to encourage stability). A **transformation** agreement would seek to enhance stability and increase confidence by encouraging the unambiguous transformation of military forces (in terms of equipment and/or training) from an offensive to a demonstrably defensive character. An overly simple illustration would be the reduction by half of tank numbers in all deployed divisions. A **reduction** agreement would seek to enhance stability and increase confidence by reducing the number of key elements in military forces (personnel and certain types of "offensive" equipment), either across-the-board or according to formulae that compensate for existing real or perceived asymmetries. Here, a simple illustration would entail the reduction by half of the divisions (including their tanks) stationed in the CSCE area. A **separation** agreement would seek to enhance stability and increase confidence by ensuring that substantially increased physical distances separated potential adversary military forces or key components of those forces. Rear-basing of bridging equipment, ammunition stocks and attack aircraft are examples of this approach. Here, our simple illustration would require that all armoured and mechanized divisions be deployed at least 200 kilometers from the inter-German border.

Although there is, quite reasonably, a tendency to think that a CST agreement will be of the reduction type, this is not necessarily the case and an eventual agreement may very well combine features of all three approaches.

**Transformation** and **separation** measures are usually considered to be "confidence building" devices. **Reduction** measures, on the other hand, are commonly thought of as "arms control" devices. This is a good illustration of why the traditional distinction between arms control and confidence building is, at best, artificial if not outright misleading. It is more useful to regard them as three types of arms control approach with varying confidence building potential.

the case that the Soviets will likely need to accept either disproportionate reductions in their ground forces or other offsetting or compensatory measures if any meaningful result is to emerge from the CST.[20]

There has been little if any formal discussion of including doctrine talks in the mandate of the CST and there is little prospect at this stage that the adoption of non-offensive or less-offensive defence policies will become a part of the negotiations. These negotiations are almost certainly going to focus much more narrowly on equipment and personnel reductions of some type and doctrine transformation simply won't fit comfortably into that type of discussion. To illustrate this point in a very crude way, one need only imagine the sort of CST agreement that is likely to emerge from the stability talks, based on what has emerged in Group 23 and related discussions thus far.

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20. No effort is undertaken here to evaluate the actual balance of conventional forces in Europe. Instead, it is assumed that there is a moderate asymmetry favoring the Soviet Union and the WTO in several important areas. It is also assumed that the asymmetry is perceived to be somewhat more pronounced than objective analysis would suggest. The asymmetry is probably not sufficient to support an easy WTO conventional military victory but this is not certain and legitimate grounds for concern do exist. Several useful recent discussions of the conventional military balance in Europe and how to measure it include: Stephen Biddle, "The European Conventional Balance: A Reinterpretation of the Debate" **Survival,** Vol. 30, No. 2, (March/April 1988); Malcolm Chalmers and Lutz Unterseher, "Is There a Tank Gap? Comparing NATO and Warsaw Pact Tank Fleets" **International Security,** Vol. 13, No. 1 (Summer 1988); Eliot Cohen, "Toward Better Net Assessment: Rethinking the European Conventional Balance" **International Security,** Vol. 13, No. 1 (Summer 1988); Joshua Epstein, "Dynamic Analysis and the Conventional Balance in Europe" **International Security,** Vol. 12, No. 4 (Spring 1988); Stephen Flanagan and Andrew Hamilton, "Arms Control and Stability in Europe: Reductions Are Not Enough" **Survival,** Vol. XXX, No. 5 (September/October 1988); Kim Holmes, "Measuring the Conventional Balance in Europe" **International Security,** Vol. 12, No. 4 (Spring 1988); John Mearsheimer, "Numbers, Strategy, and the European Balance" **International Security,** Vol. 12, No. 4 (Spring 1988); and Barry Posen, "Is NATO Decisively Outnumbered?" **International Security,** Vol. 12, No. 4 (Spring 1988).

## A CST Model Agreement[21]

(1) The Soviet Union will remove 2 Category A armoured divisions and 2 Category A mechanized motor rifle divisions from the "central zone." The United States will remove 1 armoured division or 1 mechanized infantry division from the central zone;

(2) In addition, the participating states will retire 20 percent of their ground forces personnel and equipment, calculated on a proportionate basis, presently stationed in the mandate area, within four years;

(3) In addition, the Soviet Union will redeploy 4 armoured divisions, currently stationed in the central or secondary zone, due eastward 900 km from their current sites to replacement barracks;

(4) In addition, the participating states will retire 50 percent of their airborne or air-mobile forces, regardless of where they are stationed, within three years;

(5) The participating states will reduce by 50 percent the number of main battle tanks, self-propelled guns and bridge layers currently deployed or stored within 150 km of the "inter-German border";

(6) The participating states will retire 20 percent of their modern air forces (essentially modern bombers, attack aircraft, and interceptors) presently stationed in the mandate area, calculated on an alliance-wide basis;

(7) The participating states will exchange detailed descriptions of their armed forces stationed in the mandate zone, establishing a common data base;

(8) The participating states will adopt a rigorous verification scheme calling for observations, monitoring and inspections (including challenge inspections) to oversee compliance with various reduction and withdrawal provisions;[22]

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21. A much more detailed version of this model agreement appears in the appendix along with a brief text of the Stockholm Document.

22. This measure could also include a provision for the creation of a multilateral monitoring and verification organization. This idea has been explored at length in Macintosh, "Consultative Commissions and Conventional

(9) The participating states will create a consultative commission to assist in the resolution of compliance problems.

Note that all reductions and movements of forces (as in 1, 2, 3, 4 and 6) are to be organized by organic units; associated equipment is to be destroyed or stored in a disabled condition and closely monitored; and all abandoned facilities are to be destroyed.

This model agreement illustrates why the inclusion of doctrine discussions is unlikely in a CST context. This model and most others that analysts might construct at this very early stage are going to focus on ways of reducing, in many cases asymmetrically, certain types of equipment in various zones of the European landmass. Although it is possible, in principle, to add a measure to this model requiring the adoption of "less offensive" doctrines and strategies, this would be an idle gesture. Such an inclusion would be virtually meaningless unless the measure was embedded in a very complete set of ancillary requirements outlining the methods of implementation and detailing verification provisions. While it is certainly premature to speak of a finished CST document at so early a stage, there is relatively little question that an eventual agreement - if it is even possible to negotiate one - will focus quite narrowly on a whole range of extremely complex and technical reduction measures along with their ancillary verification provisions. It is difficult to see how doctrinal transformation could be added to this agenda without complicating the whole exercise hopelessly.

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Arms Control: The Case of the CCSBMDE," a study prepared for the Canadian Department of External Affairs in 1987 and revised in 1988.

This is not to suggest, of course, that the cooperative multilateral shift to less-offensive defence doctrines and strategies would not have an impact on the course and content of the CST. To the contrary, the two are very closely related. It is obvious, for instance, that most non-offensive defence proposals require major changes in equipment types (the movement away from reliance upon tanks and self-propelled guns, for instance) that will also be central to any CST negotiations. They also require, at least in some cases, major changes in the existing deployment of personnel. This could also have a serious impact on the negotiation of force reductions and redeployments. The main point here is clear: A CST negotiation is almost certainly going to seek to reduce and/or redeploy the very systems that a doctrine transformation negotiation would be most keenly interested in removing. The common ground will have to be explored with some care if parallel negotiations are ever contemplated. Just as important, the basic organizational structure of military forces could be significantly revised as a result of adopting non-offensive defence ideas. This would have serious ramifications for CST verification approaches that are tied to the existence of organic military units such as division equivalents, regiments and brigades.

This clear inter-relationship suggests that the two processes cannot really be undertaken in isolation from each other. In fact, the potential inter-relatedness is so great that it is difficult to imagine the pursuit of either in ignorance of the other. Thus, one might more profitably ask how the negotiations should be related to each other. A preliminary answer suggests that doctrine talks might follow naturally as a second stage in the CST process. They would follow an initial agreement producing a moderate adjustment in East-West force levels of the sort sketched out in the previous

model. It certainly seems obvious that the two processes could not occur at the same time, independent of each other, without risking counter-productive outcomes and serious confusion.

**The CSCE/Stockholm Process**

The CSCE/CDE process can be traced directly to Soviet efforts in the mid-1960s to persuade the European NATO states to participate in a "European Security Conference" (ESC).[23] The conference, the Soviets suggested, would ratify the status quo in post-war Europe, explore the eventual dissolution of both NATO and the WTO and attempt to develop a broader European economic community. In fact, the primary Soviet intention was to ratify the boundaries of East European states under Soviet control since the end of the second world war and to neutralize, to the extent possible, the Federal Republic of Germany as a potential military threat. The reduction of American influence in Europe, if it could be accomplished, would be a useful bonus.

NATO (and especially American) interest in the Soviet ESC idea was, at best, marginal until the need to reduce NATO (especially American) manpower levels and defence expenditures became a major political problem. The Soviet interest in an essentially political exercise to legitimize East European boundaries then became paired with the American interest in reducing conventional force levels in Europe through MBFR. Unlike the MBFR, the

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23. For a useful history of the CCSBMDE and the emergence of the Stockholm Document, see John Borawski **From the Atlantic to the Urals - Negotiating Arms Control at the Stockholm Conference** (London and New York: Pergamon-Brassey's International Defense Publishers, 1988). Also see Jonathan Dean **Watershed in Europe** and John Borawski, Stan Weeks, and Charlotte E. Thompson, "The Stockholm Agreement of September 1986," **ORBIS** Vol. 30, No. 4, (Winter 1987).

neutral and non-aligned European states (with the exception of Albania) also participated in the CSCE process.

The CSCE process commenced on 3 July 1973 and lead to the Helsinki Final Act of 1 August 1975. Of special relevance for arms control purposes was the creation of a very modest collection of confidence building measures (the Helsinki CBMs). These established an important conceptual precedent and fostered a modest but enduring interest in developing a much more elaborate collection of second-generation CBMs. As a result, the CSCE Madrid Follow-Up Conference yielded a Concluding Document (6 September 1983) that included a formal commitment by the 33 participating European states as well as the United States and Canada to initiate a Conference on Confidence- and Security-Building Measures and Disarmament in Europe, to begin in January of 1984 in Stockholm.

The Stockholm Conference survived a difficult first year (with the general breakdown in East-West arms control dialogue) to produce what is now seen by most observers to be a significant agreement - the 21 September 1986 "Document of the Stockholm Conference." That agreement included a largely symbolic non-use of force declaration; a requirement for extensive advance notification of military activities including an annual calendar; a constraint measure limiting major exercises; a measure requiring the invitation of observers to manoeuvres; and a significant inspection measure.

The Stockholm Document represents a modest but nevertheless promising method of (1) reducing the chances of unintended or accidental war; (2) constraining surprise attack options; and (3) limiting the opportunities for

using military activities in a threatening manner. As a result, it also constitutes an important step forward in the process of improving the underlying psychological character of relations amongst the European states as well as the superpowers. Because the Stockholm Document is concerned primarily with revealing the true nature of military activities that might otherwise be **mistaken** for war preparations, it helps to control potentially dangerous misperceptions about the intentions of other states. Any future variation on the CCSBMDE theme is likely to cater to this very important need, as well.

**CDE 1B**

The status of the Stockholm CCSBMDE follow-on negotiation - the CDE 1B - is unclear at present, primarily because it is hostage to the completion of the overall Vienna CSCE Follow-Up Meeting (FUM) which began on 4 November 1986. It seems relatively clear that the participating states will accept the continued use of the Madrid mandate although the question of associated air and sea activities is uncertain. The Soviet Union - as well as some of the NNAs - appear keen to develop new CSBMs that will incorporate naval and air activities - a strategy that the West is not interested in seeing effected. The West, on the other hand, is very interested in pursuing increased data exchange and enhanced verification measures. Of particular interest given the focus of this paper, the Soviet Union has also indicated that it is interested in discussing military doctrine in the context of a CDE follow-on negotiation.[24]

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24. This is discussed briefly in Robert D. Blackwill, "Conventional Stability Talks - Specific Approaches to Conventional Arms Control in Europe," **Survival**, Vol. XXX, No. 5 (September/October 1988), especially note 33 and 34.

A conservative estimate of what a CDE 1B negotiation is likely to produce would begin with the observation that the resulting agreement is very likely to match quite closely the existing Stockholm Document in many respects. Thus, it is likely to parallel the structure of the earlier agreement with variations on the theme of notification, observation, calendar, constraint, and inspection. Beyond this basic structural similarity, many of the existing measures are likely to be refined and/or made more stringent. Prior notification time periods, for instance, might be increased to sixty days. The manpower and equipment thresholds of the revised notification measure might also be lowered although this is unlikely if it means abandoning the very useful technique of using distinguishable organic units (such as division equivalents) as basic units of account. One might also see added a requirement for the notification of any short-warning alert activities (not currently notifiable in the Stockholm Document).

A considerably more controversial new notification measure that could find its way into a CBM 1B agreement - although the NATO countries are opposed to such a measure - would involve the creation of something like a 200 km notification of maritime military activity zone, basically following the coast of Europe from Spain to some point off Norway's coast. It might require 45 day advance notifications of maritime activities involving more than 6 associated major combatants or a vessel capable of launching more than 12 fixed-wing aircraft. To alleviate concerns about lost maritime flexibility (largely addressed already by limiting the extent of the zone), this type of maritime notification measure might not have a matching calendar requirement.

An information measure might be added to the new CDE 1B, similar to the one proposed by NATO in the original CDE negotiations.[25] In addition, calendar and observation measures from the original Stockholm Document could well be refined somewhat for a CDE 1B, requiring a greater degree of detail in supplied information. Observation and verification procedures could also be extended and access rules clarified. Most of these possibilities are simple refinements, however, and do not constitute radical new directions. In the case of the CDE 1B's constraint measure, the potential clearly exists for more significant modifications of the existing measure. A new constraint measure, for instance, might include aggressive provisions for limiting the deployment of offensive equipment in certain sensitive zones. It is unclear, however, whether such a measure - if attempted at all - would be best placed in a CST or a CDE 1B agreement. This type of constraint measure is clearly a type of confidence building measure but it might be more comfortably located in a CST agreement. Significantly, this type of measure is also closely associated with the thinking underlying many non-offensive defence schemes. Whether this constitutes a sufficient point of entry for the inclusion of more wide-ranging doctrine talks in a broader CDE 1B is difficult to say. The short answer is probably not.

Looking at the likely content of a CDE 1B agreement yields roughly the same conclusion as that produced by the projection of a CST agreement. There is no obvious place in the probable content of the agreement for any substantial doctrine talks elements. Although it is possible in each case to

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25. For details on the various CCSBMDE proposals and various related documents, see Rolf Berg and Adam-Daniel Rotfeld, **Building Security in Europe - Confidence-Building Measures and the CSCE** (edited by Allen Lynch) (New York: Institute for East-West Security Studies, 1986).

find a logical point of entry, the thrust of the CST and the CDE is sufficiently different to make the appending of doctrine talks very unlikely. As with the CST case, the weight of doctrine talks substance is simply too great and the likely nature of the necessary negotiations too complex to make it likely that doctrine talks would be added to the CDE agenda. Significantly, this view is not a function of any assertion that doctrine talks have no confidence building character. Quite the contrary, it is difficult to imagine anything that would have a greater confidence building impact that the widespread adoption of non-offensive defence doctrines by all of the CSCE states.

**Doctrine Talks, the CDE and the CST**

The examination conducted thus far is relatively clear in rejecting the possibility of including, as part of the CDE or CST agenda, formal and serious negotiations for the mutual adoption of non-offensive defence doctrines. The analysis is equally clear, however, in noting that there are obvious and important connections between the adoption of new defence-oriented doctrines and both the CDE and the CST. This shared interest in dealing directly with offensive systems (the CST) and altering policy to promote the growth of confidence in non-hostile intent (the CDE) suggests that all three, in a general way, are concerned with broad confidence building goals. There is significant potential substantive overlap, as well. Thus, it might make the most sense to recommend that doctrine talks be initiated in parallel with the Conventional Stability Talks and that they employ a jurisdictional arrangement, reporting to the CSCE on a regularized basis.

## Conclusion

This paper has argued that non-offensive defence proposals have some genuine merit and constitute an interesting and promising approach to the increasingly troublesome problems of conventional military instability caused by excessively offensive doctrines and asymmetric conventional military deployments. While far from perfect at this stage in their development, these proposals do address, in an imaginative and effective manner, a number of specific problems seemingly inherent in NATO and WTO military policy. The majority of drawbacks identified in various of these NOD proposals are potentially serious but primarily so only if the NOD approach is adopted unilaterally by NATO states (especially Germany). If **both** sides were to gradually adopt defence policies based on the precepts of non-offensive defence, there is a much better chance that these measures would be effective in stabilizing the military relationship between East and West.

A central question then becomes: How would one go about instituting such a doctrinal transformation? This paper argues that neither the CST nor the CDE could support a major negotiating process aimed at creating a mutual non-offensive defence-predominant regime. The likely course and content of the two arms control processes are simply too dissimilar to the negotiation of non-offensive defence policies. The more reasonable - and promising - option is to undertake separate negotiations for the mutual transition toward a NOD regime under the aegis of the CSCE and parallel to the CST. The latter is necessary because the subject matter of the CST and a non-offensive defence transition is, in many instances, the same. One could not be negotiated in isolation from the other without risking counterproductive results. Whether or

not this whole notion of non-offensive defence can be made to work in the context of a mutual transition under the CSCE is difficult to say. However, if it cannot be made to work in this context, it is not likely to be feasible at all.

## Appendix

### A CST Model Agreement

(1) The Soviet Union will remove, under monitored conditions, 2 Category A armoured divisions and 2 Category A[26] mechanized motor rifle divisions from the "central zone."[27] The United States will remove, under monitored conditions, 1 armoured division or 1 mechanized infantry division from the central zone. The divisions are to be removed as units, including all associated equipment [to be defined] within two years. Their barracks and support facilities are to be destroyed. All "removed" equipment is to be destroyed or stored, in a specified disabled condition,[28] in closely monitored "parks" outside the central and secondary zones;

(2) In addition to the reductions specified in (1), the participating states will retire 20 percent of their ground forces personnel and equipment, calculated on a

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26. All divisions referred to in this model would be Category A or its equivalent (possessing at least 90 percent of their specified equipment, armaments and supplies and 90 percent of their personnel complement). The focus of a CST agreement is almost certainly going to be on forces that are at their highest state of readiness.

27. The "central zone" is the land territory of the Federal Republic of Germany and the German Democratic Republic. In this model, the "secondary zone" is comprised of France, the Netherlands, Belgium, Luxembourg, the Soviet Union "west of the Urals," Poland, Hungary and Czechoslovakia, including any non-indigenous forces stationed in these states. The remaining European Group of 23 states constitute the "supporting" or "tertiary" zone. Only those Canadian and United States forces stationed in the mandate area would count in the calculation of forces and be subject to the agreement's measures. These are not terms that will necessarily be used in a CST agreement although they reflect the concept of different zones, seen in terms of their surprise attack vulnerability and crisis-inducing potential, in the CSCE area.

28. This approach would involve, for example, the removal of the turret from a tank and its storage in a separate location. It might also involve the removal of certain critical engine components. The main idea is to ensure that stored equipment could not be put back into service, either quickly or easily. Some variety of unique vehicle tagging could also be employed. The facilities in which this disabled equipment would be stored would also require thorough monitoring and security equipment.

proportionate basis,[29] presently stationed in the mandate area, calculated on an alliance-wide basis within four years.[30] No single state may retire more than 30 percent or less than 10 percent of its ground forces. The designated forces are to be retired as organized units within three years. Their barracks and support facilities are to be destroyed and their administrative infrastructure abolished.[31] All retired equipment is to be destroyed or stored, in a specified disabled condition, in closely monitored parks;

(3) In addition to the reductions and retirements specified in (1) and (2), the Soviet Union will redeploy 4 armoured divisions, currently stationed in the central or secondary zone, due eastward 900 km from their current sites to replacement barracks.[32] The original barracks and

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29. This means that a state with, for instance, 45,000 ground force personnel and 1,000 modern tanks (approximately three armoured division equivalents) would reduce its forces to 36,000 personnel and 800 tanks. The reduced 9,000 personnel and 200 tanks would be removed as organic units (to the degree possible) with, perhaps, one division losing two regiment or brigade equivalents while the other two remained at regular strength. "Thinning" existing divisions of 20% of their tank strength is a less effective solution because the structure of the division would remain largely unchanged. A good deal of care would have to exercised to ensure that reduced formations could not be quickly reconstituted.

30. An additional condition might require each participating state to reduce its forces in such a way as to maintain the existing ratio between armoured and infantry units. An agreement might also require that each state maintain, in the course of reductions, the same ratio of modern tanks to personnel. The idea, of course, would be to prevent the retention of a disproportionate number of tanks.

31. It is not entirely clear how this might be accomplished. One possibility would forbid the electronic or paper reference to a retired unit's various designations. If unit names and numbers were frozen six months prior to an agreement, no new identification terms could be developed as a method of undermining this approach. While hardly foolproof, it would certainly make normal - and vital - communication very difficult, thus frustrating easy circumvention.

32. It is not clear whether the divisions mentioned in measure 2 and 3 ought to be only Category 1 divisions (or their equivalent) or Category 1 and 2 divisions. The former would be very demanding. The latter might be more feasible. There are various methods available for skewing reductions in terms of favouring those deployments nearest the inter-German border (or

support facilities are to be destroyed;

(4) In addition to the reductions and retirements specified in (1) and (2), the participating states will retire 50 percent of their airborne or air-mobile forces, regardless of where they are stationed. The designated forces are to be retired as organized units within three years. Their barracks and support facilities are to be destroyed and their administrative infrastructure abolished. All retired associated equipment is to be destroyed or converted, according to specified rules;

(5) The participating states will reduce by 50 percent the number of main battle tanks of a modern design [to be defined] currently deployed or stored within 150 km of the "inter-German border";[33]

(6) the participating states will retire 20 percent of their modern air forces [to be defined, but essentially modern bombers, attack aircraft, and interceptors] presently stationed in the mandate area, calculated on an alliance-wide basis.[34] No single state may retire more than 30 percent or less than 10 percent of its air forces. The designated forces are to be retired as organized units within five years. Their barracks, C3I, and support facilities are to be destroyed and their administrative

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other significant geographic features) or favouring those at the highest level of preparedness. Other criteria might also be deemed important in deciding which units to remove, reduce, redeploy or eliminate.

33. An additional measure could extend this type of thinking to include other "troublesome" types of "offensive" equipment. Self-propelled artillery, bridge-layers and fuel trucks, for instance, might be similarly limited. It is always difficult, however, to isolate systems that have only an offensive capability with no equally useful defensive application. Tanks and their functional equivalents are likely to remain the principal equipment subject to this type of approach, primarily because of their symbolic weight. There is, nevertheless, an argument to made for concentrating on self-propelled artillery and self-propelled anti-aircraft systems (guns and missiles). They can be seen to have a more single-purpose offensive character than do tanks.

34. A related reduction measure could require the elimination or retirement of, say, 20 to 30 percent of helicopters, perhaps concentrating on those capable of carrying more than five people. It is this type of helicopter that is most troubling in the surprise attack context. Large numbers of forward-based transport helicopters could insert special forces behind enemy lines as part of a surprise attack.

infrastructure abolished. All retired equipment is to be destroyed or stored, in a specified, disabled condition in closely monitored storage areas. The participating states will give preference to "forward-located bases" (i.e., air bases located closest to the inter-German border) in selecting units for retirement;[35]

(7) The participating states will exchange detailed descriptions of their armed forces stationed in the mandate zone, according to an agreed format, when the agreement takes effect. This will constitute baseline information for verification purposes and other procedures;

(8) The participating states will adopt a rigorous verification scheme calling for observations, monitoring and inspections (including challenge inspections) to oversee compliance with various reduction and withdrawal provisions;[36]

(9) The participating states will create a consultative commission to assist in the resolution of compliance problems.

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35. An even more controversial version of this sort of measure would involve the designation of air bases according to a formula that would attempt to match (1) base distance from the inter-German border (plus a "working distance" for on-site combat activities) with (2) the combat ranges of aircraft based at those facilities. Ground-attack aircraft would be allowed to stay closest to the inter-German border, on the assumption that they typically would play the most defensive role of any combat aircraft. Without air cover, they would not participate in deep strike missions. Interceptors and bombers would have the least latitude in terms of "close" basing. Key to this measure would be the explicit linking of specific aircraft types to specific bases and the ability to conduct on-site challenge inspections to ensure that no banned aircraft **or** (especially) support equipment for banned aircraft was present. Each air base in the entire reduction area would be permitted, by joint agreement, only certain types of aircraft. It must be admitted that this is a particularly challenging type of measure. However, attention at some point must be paid to the problems of limiting combat aircraft in conventional arms control and this is a worthwhile sample measure to explore.

36. This measure could also include a provision for the creation of a multilateral monitoring and verification organization. This idea has been explored at length in Macintosh, "Consultative Commissions and Conventional Arms Control: The Case of the CCSBMDE," a study prepared for the Canadian Department of External Affairs in 1987 and revised in 1988.

## The Stockholm Document

(1) **Non-Use of Force Re-Affirmation;**

(2) **Prior Notification** (42 days advance notification of activities involving: (a) the engagement of a division equivalent (13,000 land forces or 300 tanks) in an exercise activity; (b) 200 fixed-wing aircraft sorties; (c) the engagement of 3,000 troops in a parachute or amphibious exercise; or (d) transfers into or concentrations within Europe of at least a division equivalent);

(3) **Observation** (2 observers per state to be invited to any exercise or transfer involving 17,000 personnel or 5,000 troops involved in a parachute or amphibious exercise);

(4) **Calendar** (specified information about all notifiable activities to be communicated at least one year in advance);

(5) **Constraint** (notifiable activities over 40,000 troops must be forecast two years in advance; none over 75,000 permitted without a two year calendar forecast and none over 40,000 permitted without a one year calendar forecast); and

(6) **Inspection** (on-site ground and/or air inspection within 36 hours of request using 4 inspectors; no state need accept more than 3 inspections per year).

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# THE DEBT CRISIS FROM DECLINING HEGEMONY TO MULTILATERALISM

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# THE DEBT CRISIS FROM DECLINING HEGEMONY TO MULTILATERALISM

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Preliminary Version

## 1. Introduction

The Latin American debt crisis has developed in a period of declining US hegemony. The US led recovery of the mid 80's has provided a partial relief to the debt problem while leaving the structural aspects susbtantially unresolved to say the least. This episode has brought to the surface even more clearly the fact that the international system has entered a new and extremely problematic phase, characterized by the progressive drift away from the hegmonic system which was built at Bretton Woofds, towards a multipolar structure itself in rapid evolution. The relief provided to the indebted countries has been accompanied by the trasforamtion of the former hegemon into the world largest debtor and, symmetrically, by the emergence of new leading powers, the most prominent of which is the world largest creditor , Japan.

This paper discusses some of the aspects of the interconnection between the North-South debt crisis and the more recent North-North debt crisis. It takes a systemic, and medium term, perspective in the sense that it neglects all the relevant domestic aspects of the indebted countries as well as short term developments. The systemic view, in addition, is limited to some of the aspects involved.

The theoretical framework is based on the financial instability hypothesis developed by Hyman Minsky and adapted to consider the international system. This theoretical view is then considered in the perspective of international regime theories developed by a number of political economists in recent years and also partially taken up by some economists such as Charles Kindleberger (1986).

The paper is organized as follows. Paragraph 2 briefly describes the international financial instability hypothesis and offers the connections with the theory of international regimes. Paragraph 3 recalls the most relevant events of the last few years and describes the connection between the Noth-South and the North-North debt crises. Paragraph 4 reconsiders such a connection in terms of overlapping and simultaneous games. Paragraph 5 offers a very simple conceptual framework which analyzes the implications of the emergence of a multipolar financial system for the indebted countries. Conclusions are presented in paragraph 6.

## 2. International Financial Instability and International Regimes (1)

In a closed economy actors involved in the mechanism of financial instability are; firms, which finance their activities through debt; financial institutions, which provide the funds; the government, which acts as the ultimate source of effective demand; and monetary authorities which stabilize the system by providing, among other things, lender of last resort intervention when the possibility of a financial crisis emerges (2). In an international economy the actors are; national policy authorities of both North and South countries; private banks operating in international financial markets as well as international

institutions. National governments in the South implement expansionary policies and, by so doing, they will run into balance of payments problems and they will therefore seek to obtain loans to meet payments commitments.

In an international economy the ultimate source of finance is represented by exports. Net exports assume the role played by profits in the closed economy case. Insofar as the growth process produces negative net exports international credit will be demanded by developing countries. A country will -in general- be willing to pursue an expansionary policy required by a development process if today's negative net exports will be financed by positive net exports tomorrow. In this respect a country will assume a *hedge finance position* if it expects to have positive net exports for each future period so as to service outstanding debt in each period ahead. However in the first stages of a development process the country is more likely to assume a *speculative* (or even *ponzi*) positions as repayments of debt will be covered by profits only in some future period.

If the development mechanism is succesful and well monitored loans will be transformed into profitable activities (investments) which will generate enough profits (net exports) to repay initial debt. In this case we are faced with a speculative finance position (in Minsky's terminology). A ponzi finance position may arise if current exports are so low that the country has to raise new loans just to meet payment of interest on outstanding debt thus increasing its debt burden.

Given the terms of trade , we may assume that exports depend on international demand and domestic capacity (and hence on demestic investment) while payment commitments depend -for a given outstanding debt- on the level of the interest rate. For our purposes it is sufficient to consider that, for the system as a whole, the level of world demand depends on the policies pursued in the North, i.e. we can assume away the hypothesis that the South can take up the role of the engine of growth for the system. In order to describe the build-up of financial fragility in the North-South system we will assume , for the moment, that the level of world demand is exogenously given.

For a given level of world demand and of the world interest rate each country in the South will set a rate of growth of investment (3) which will eventually lead to a balance of trade deficit. For a given rate of world demand the rate of growth of exports will increase with domestic accumulation which relaxes supply constraints. If the country is succesful in its export growth process it will be easier for it to obtain international credit as its creditworthiness will increase . Credit availability will enhance the country's investment opportunities and export capacity starting a virtuous circle.

This situation may change the attitude of countries and banks in the sense of increasing the euphoria of both. The success of the growth process will encourage countries to borrow more and banks to lend more (4) . In the expansionary phase both borrowers and lenders will assume speculative (and possibly ponzi) finance positions. Countries will borrow to finance trade deficits and interest payments while banks will de facto finance medium and long term investment while having to face short term deposit servicing on the liability side. An orderly development of such a process- i.e. a situation in which the system neither slips into recession thus leading to negative net exports and the deterioration of the indebted countries, nor explodes into

uncontrolled euphoria- rests on the fulfillment of two crucial conditions; the existence of a high and stable effective demand to provide outlets for the indebted countries and what may be called a source of "ultimate liquidity" to prevent the system from slipping into situations of financial distress. (5) In this respect these two macroeconomic conditions represent the public goods which are necessary for an orderly functioning of the system (Head 1962, Kindleberger 1981, Wallace 1983). In a closed economy such public goods are provided by the national government and monetary authorities . In an international system , where no supranational government exists, the production of these public goods depends on the interaction of national policies, that is on the organization of international regimes .

International regimes have been defined as the set of norms rules and institutions which govern the beahviour of an international system (Krasner 1983). Here we will consider regimes, in a slightly different perspective, as the way in which the production of international public goods such as international effective demand, is organized. We will speak of an international macroeconomic regime as the way in which international effective demand is generated and to what extent (6) .

Two kinds of international regimes may be considered for our purposes, hegemonic regimes and multipolar (or oligopolistic ) regimes (7).

In an hegemonic system, such as the one prevailing in the "long decade" after world war II, the necessary and sufficient condition for the provision of public goods is the existence of an hegemon, i.e. a country whose economic and political power is large enough as to allow the unilateral production of public goods in spite of free riding policies pursued by other countrries (8) . The hegemon will act as the "residual country" whose expansion ultimately determines the expansion oif the system as a whole (9).

In a situation of oligopoly the conditions for the production of international public goods are much more complex and require an increase in international cooperation i.e. an agreement among the larger countries in the system. (10) An hegemonic system will resist as long as the hegemon will possess enough economic power to exert international leadership . The definition of economic and financial power rises a complex and debated issue and we will not consider it here at any depth (11) . For our purposes it is sufficient to establish some links among the international financial position of a country and its ability to

generate international effective demand and to provide "ultimate liquidity". The provision of ultimate liquidity requires a series of conditions such as the esistence of an international banking system supported by efficient lender-of-last-resort facilities and international creditoworthiness for the currency which denominates debt. To discuss this latter point again we may take into consideration some of Minsky's ideas.

A country is internationally creditworthy (Minsky 1979) as long as it generates profits in the international economy, that is its trade balance is in surplus . This will assure international creditors that debt servicing will be guaranteed. If a country is creditworthy it is in a position to pursue expansionary policies financed by its own currency. In the Bretton Woods hegemonic system the US were in the position to act as international sources of effective demand , to issue the world's currency , and to act as the base of the international financial system succesfully as long as the US trade balance was in surplus (and as it held a creditor position vis-à-vis the rest of the world). No wonder that when the system was ufficially buried, in 1971, the trade balance had turned into deficit for the first time after decades. The hegemonic system, in addition witnessed the expansion of an international private banking system largely US based. In such a system the production of the public good of financial stability was the main responsibility of the US monetary authorities.

## 3. From Declining Hegemony to Multilateralism

The Latin American Debt crisis has developed in a period of rapidly declining US hegemony. The foreign debt of Latin American countries, as well of many other southern economies, has developed in an international environment which was favourable to a process of debt accumulation along the lines discussed in the previous paragraph . Particularly easy monetary conditions prevailed in international financial markets , reflecting easy monetary conditions in the centre economy. Banks were eager to push loans onto what seemed an extremely favourable business, lending to rapidly growing developing countries.

More critical, however, were the conditions in which international effective demand was generated. The breakdown of the Bretton Woods system had shown that the US were no longer in the position to provide unilaterally the public good of growth to the international system for reasonably long periods of time. In the absence of closer coordination among the major industriaized countries US expansionary policies would lead to a rapid deterioration of both her trade balance and of the international position of the dollar. These two facts, in turn, weakened the position of the US based international banking system. The generation of a stable and sustained rate of growth of demand required the existence of new macroeconomic regime based on multilateralism.

At the end of the seventies, at the Bonn summit the declining hegemon and the emerging powers, Germany and Japan, seemed to have reached an agreement in the management of the world economy (Putnam and Bayne 1984). This illusion soon broke down leading to the drastic change in US policies both in the monetary stance (1979 Volcker shock) and in the fiscal stance (Reaganomics).

The consequences of this drastic change for the indebted countries were dramatic to say the least. The international environment become increasingly restrictive. Interest rates soared to historic levels in real terms. Also as a consequence of the second oil shock the world economy plunged into recession. The public good of effective demand was no longer there to sustain a process of indebted growth. The rise in interest rates had turned even the most conservative financial positions into de facto ponzi finances.

The provision of the public good of effective demand was interrupted also because the hegemonic regime had collapsed into a multilateral system which did meet the conditions for cooperation without hegemony . In this respect the debt crisis which exploded in 1982 was the combination of international financial instability mechanisms which had developed in an international regime not strong enough to sustain them. The declining hegemon, however, has produced a final effort to provide the public goods necessary for the functioning of a financially complex system. After the breakout of the crisis US monetary authorities heaviliy intervened to avoid financial collapse by sustaining the US banking system in heavy trouble due to exposure vis-a-vis the Latin American countries. The recovery of the US economy sustained by an expansionary fiscal policy provided later some relief to the indebted countries . The global collapse which the world had feared for so many months had been avoided .

Of course the management of the debt crisis was, and is much more complex than what has been so rapidly suggested. It must be recalled, among other things , the role provided by official institutions such as the IMF in organinzing the management of' the crisis and intermediating between indebted countries and the creditors. (Padoan 1987). We will skip these ,as well as many other aspects to keep to our assignement, that is to discuss the imlplications of an emerging multilateralism for the debt crisis.

The "solution" to the debt crisis marked once again the importance of leadership in the production of international public goods. The new event , which has come to general attention only very recently is that the new act of hegemony represented by the US unilateral expansion in the mid 80's has further deteriorated US financial power up to a point which many consider of no return (12). The expansionary policies pursued by the US administration have generated a trade deficit, also enhanced by the massive dollar revaluation, which have produced an unprecedented debt accumulation. The peculiarity of this event does not lie so much in the total amount of debt (or in the debt to income ratio) but in the fact that the world's former hegemon has turned into the world's largest debtor. The "management" of the North South debt crisis has produced a new North-North debt crisis which is now closely linked to the formeer one.

The position of the Us as a debtor reflects almost simmetrically Japan's position as a world debtor. To stretch things a little, but not much, it is convenient to say that Japan's credit is US's debt (13) . Let us consider this point bearing in mind the importance of the public goods of growth and ultimate liquidity for the functioning of a complex financial system. In a period of declining hegemony these public goods have been provided, at an increasing cost , by the declining hegemon with little or no support on the part of the other leading economies

whose restrictive policies, leading to trade surpluses, have subtracted a share of world demand.

The production of public goods in declining hegemony has further eroded the financial power of the United States rapidly turning the picture from a case of declining hegemony to one which may be termed of bilateral monopoly, i. e. a situation in which the management of the international financial system rests on the cooperation among the two nations, US and Japan (14) . From the point of view of the production of public goods the situation is now more complex. After the transition to multilateralism the generation of ultimate demand and of ultimate liquidity do not lie with the same actor any more. While the United States still represent the most important source of effective demand for the world market they are not in the position to supply the public good of ultimate liquidity. This role is rapidly being taken up by Japan.

Such a statement would need a thorough documentation which is beyond the scope and possibilities of this essay. So only a few arguments can be advanced. A support to the first statement is implicit in the facts which have been recalled above. A temporary relief to the 1982 debt crisis has come from the expansion of the US domestic market. A similar relief could have not come from the japanese economy for both policy and structural reasons. Untill very recently Japan's economic policy stance has followed what might be termed a form of "neomercantilism " by sustaining external competitiveness and restraining the expansion of the domestic market. This has been achieved (15) both by tight fiscal policies and more importantly by a wide array of non tariff protection measures. Partly as a consequence of external pressures, arising mostly from the US themselves thus policy stance is being changed. The fiscal policy has become more exapansionary and promises have been made to lower the explicit and less explicit barriers to domestic market penetration. For the purpose of this paper, however, what matters is that the capacity of Japan to act as a market for exports of indebted countries may be defined as irrelevant.

The second element is more complex. As we have seen above the supply of ultimate liquidity requires a number of conditions; the existence of a widespread financial system supported by lender of last resort facilities, international creditworthiness of the currency, itself based on a sound balance of payments position as well as a sound asset position. The financial system involved in Latin American debt is still

largely US based and lender-of-last-resort resmonsibilities still lie with US monetary authorities. The japanese banking system, however, has been expanding internationally quite rapidly in the recent past (Iwami 1988) while the japanese financial system is undergoing an extremely fast expansion and opening process (16). The japanese banking system, on the other hand, is only partially involved in direct debt financing and , what is more important, the dollar, and not the yen, is by far the leading international currency, denominating latin american debt as well as other international transactions.
However the dollar is issued by a country whose international creditworthiness is greatly undermined both in flow terms (trade deficit) and in stock terms (the US as an international debtor).
As long as the international financial system is dollar based -and we may assume that this state of affairs will prevail for several years to come- ultimate liquidity must be provided in dollars. However the soundness of this system itself depends on the willingness of other countries, and of Japan in the first place, to provide credit to the US. The management of international debt , today must therefore face a double problem. Latin American countries are tied as debtors to the US, while the latter is itself tied to other countries, and to Japan in the first place, as a debtor.

## 4. **Overlapping and Simultaneous Games in the International Financial System**

Game theory has become extremely fashionable among economists. Its usefulness lies in the fact that it clarifies the interconnections between the actors involved. The problem under discussion here is certainly characterized by complex interdependencies . We will not try to formalize them , rather we will use some concepts derived from game theory to try to clarify the issues.
Several authors have addressed the debt problem in game theoretic terms (17) . In its simplest forms a game is set up between the borrower and the lender. Players have the possibilities to defect or to cooperate . For our purposes we may assume that *lender* here means the country which provides both markets to debtors' exports and ultimate liquidity. For the borrower defection means debt repudiation and cooperation means adjustment in the attempt to meet debt service commitments. For the lender defection means refusal to provide further liquidity and/or expansionary policies and hence imports, while cooperation means the opposite.
The financial picture presented in the previous paragraph may be decsrbed in terms of overlapping games . Overlapping games arise (Alt and Eichengreen 1987) when the same game is played simultaneously by one player vis-à-vis two different other players on the same issue. In our case the US are simultaneously involved in a debt game with the indebted countries and with Japan. These two games, in addition, are linked in the sense that the solution to one influences the solution to the other.
Let us consider the US-Latin American debt game. If both countries defect by , respectively, defaulting and not providing additional liquidity and larger markets the situation collapses into a debt crisis.

If both cooperate the debt game can continue and the conditions for the sound performance of a financial system recalled in paragraph 2 are met. In a "sound" hegemonic regime the system will function even in the absence of explicit cooperation on the part of the debtor as both effective demand and ultimate liquidity will be provided unilaterally by the lender-hegemon while the debtor may , and probably will, act as a free rider. This solution, as we have seen, is partially possible in a situation of declining hegemony . In such a case, however, the exercise of hegemony will ultimately destroy the bases upon which the system rests by further deteriorating the international creditworthiness of the hegemon.

This brings in the game between US and Japan. Here the issue at stake is the maintenance of a dollar based financial system as a mean to provide ultimate liquidity. The borrower (the US) may chose to defect by not adjusting her economy, in particular not adjusting her public deficit and hence her trade deficit, or it may cooperate by trying to turn her external deficit into a surplus in order to meet her prospective debt service commitments and therefore restore international confidence. The lender, in turn may chose to defect by stopping to finance the US debt or to cooperate by continuing to do so. (18) Note that "adjustment" by US here cannot mean an adjustment of the trade deficit through a substantive dollar depreciation as this will endanger and ultimately destroy the value of the assets in the hands of the lender and, probably, obtain a result that is opposite to the one involved here, that is , the defence of a dollar based financial system. Adjustment by the US, then, can only mean a generation of trade surpluses by means of a restrictive policy aimed at cutting the budget deficit. If both players cooperate the dollar based system will survive, otherways it will collapse.

Note also that cooperation is needed since we are not (yet) in a situation of japanese hegemony which would allow for the possibility of unilateral provision of the public good of financial stability. In such a case the japanese economy would be ready to absorb US net exports in an amount large enough to allow for a trade surplus to appear in US trade balance.

It is easy to see that the solutions to the two games interfere with each other. Cooperation in the second game requires a restrictive policy in the US economy which means defection in the first game. If the US wishes to reaquire creditworthiness vis-à-vis their major creditor she must pursue adjustment policies which will mean a restriction of her domestic market for Latin American exports. This will be perceived by the indebted countries as defection in their game to which they will retaliate by repudiating their debt. In such a case the international financial posutoin of the US will deteriorate further thus making the solution in the second game even more difficult to achieve.

On the other hand suppose that the US decide to cooperate in the first game by keeping an expansionary course. This will avoid defection by Latin American countries but it will trigger retaliation by Japan as this will mean larger US indebtedness.

What are the solutions to this situation? Two general ways out may be envisaged. One is overall cooperation and the other is the introduction of simultaneous games in the picture.

Overall cooperation must be understood in different terms than the ones sketched here. In the very simple terms of our example cooperation in

one game triggers defection in the other. This derives from the fact that we are assuming implicitly one period static game situations. Players have but one choice to make.

A different perspective arises if one considers the suggestions arising from the theory of cooperation "under anarchy" i.e. cooperation without hegemony (Oye 1985a, 1985b; Axelrod and Keohane 1985). These conditions , which may also be expressed in game theoretic terms, are the following; a) players must take a "long shadow of the future", i.e. they must be involved in repeated games as this will minimize the adavantages from defection ; b) players must be prepared to alter the structure of their preferences which implies a change of the pay-off matrices and hence the possibility of defining superior cooperative solutions; c) the number of players must be minimized so as to avoid free-riding effects. In addition the role of institutions , as providers of informations , must be enhanced (Runge 1984, Langlois 1986).

If these conditions prevail in our two debt games a cooperative solution can be found through a substantial change in the game structure. If actors recognize the simultaneous nature of the games they are involved in (Alt and Eichengreen 1987) , i.e. if they take a global and long term perspective they will not try to defect. However this will not be enough if the terms of the games described above remain the same. In particular adjustment must not be understood in simple macroeconomic terms, either to expand or to deflate, to lend or not to lend, but in much deeper structural terms. It is not possible to give a full account of the structural trasformations required . A few obvious hints may be advanced. Latin American countries must adjust their economies so as to decrease their dependence on external finance. The US must increase her structural competitiveness to improve her trade performance without resorting to massive devaluation. Japan must gradually but rapidly open her markets to foreign goods. If these conditions are met then a cooperative solution may gradually emerge without the risk of triggering a world wide recession and financial crisis . At the same time it would be possible to design and develop a financial system in which the role of the dollar is gradually diminished without producing destabilizing shocks.

This solution is probably the most desirable one, but it is also the most difficult to implement and surely the one that requires a very long time horizon (Cohen 1988).

Let us now turn to the other possible solution related to the introduction of simultaneous games .Simultaneous games are played by the same two players over two (or more) different areas at the same time. The problem here is to discuss whetehher the existence of simultaneity increases the prospects for cooperation. It is commonly held that simultaneity increases the chances of cooperation. However, as Alt and Eichengreen (1987) warn, this is not necessarely so . Players engaged in simultaneous games may have incentives to defect on both games rather tahn only on one, knowing that defection on only one game will trigger retaliation by the other player on all games they are involved in. However if they recognize the existence of linkages among the games involved, i.e. if they recognize that the solution to one game produces spillover to the other game they might be induced to increase cooperation in both games. In other terms whether simultaneity is more conducive to cooperation it depends on the nature of the games involved.

US and Japan are simulatneously involved in more than one game in the international system. In addition to the financial game e there is a trade game and a security game, i.e. the problem of sharing defense exepenses. For the sake of simplicity lets ignore the trade game and consider the simulatneous game played on the security field (19) . In the security game cooperation implies the provision by both US and Japan of a share of military expenses necessary to provide the public good of the military alliance which is proportional to the economic weight of the country, while defection implies a lower share. In a situation of hegemony the hegemon would provide a more than proportionate share of the costs of production of the public good. Declining US hegemony, as is well known, has produced effects also in the security field as the Us are now pushing her allies to increase their contribution to defense expenditures.

This fact has obvious financial implications and hence there is a spillover to the financial game discussed above . If a cooperative solution to the security game is reached , i.e. if Japan increases her share of defendse expenditure (20) the problem of financial adjustment by the US is made less severe as part of the defense burden in US budget can be cancelled. It follows that by increasing her partecipation to defense expenditure Japan will lower the risk of financial default by the US thus preserving the value of its assets in a way that is more efficient than by requesting unilateral adjustment in the US budget and trade deficits as it happens in the financial game when considered in isolation.

Conversely if Japan defects in the security game by refusing to increase military expenditure the US will have a greqater incentive to defect in the financial game, for example by refusing to adjust the budget and pursuing a aggressive dollar devaluation.

The recognition of spillover between the two games will, therefore, probably increase cooperation in both games. Consider Japan's position once again. The recognition of the spillover and the assumed interest of Japan in both maintaining financial stability and providing the public good of defense will encourage her to cooperate on both games. This can be seen as a two stage process. In the first stage, i.e. in the short run, by sustaining the US external debt position she will allow the US to continue to provide the public good of defense. In the medium run (second step) she will significantly increase her military expenditure thus alleviating the burden of US debt. Conversely a more cooperative Japan policy will foster cooperation in the US in both fields as in the short run she will maintain her military expenditure while , in the medium run she will adjust her fiscal and hence financial position. The recognition of simultaneous games has therefore led us to find a solution to the US-Japan financial game which does not necessarely implies a unilateral restriction in the US which would imply defection in the US Latin American debt game. The recognition of simultaneity will produce the effect that both US and Japan will take a longer time horizon , and will also accept to alter their prefences structure especially in the military sphere. In other words simultaneity will allow for some of the conditions of cooperation under anarchy to be fulfilled .

What are the implications for the debt game played by the US and Latin America? The obvious implication is that the longer time span and the more gradual adjustment in the US economy will allow for a smoother

adjustment also in the debt situation. Financial support provided to the US by Japan in exchange for security will allow the former to avoid an abrupt recession thus keeping the debt game open by cooperating in the debt game and , therefore, fostering cooperation also on the side of the debtor countries.
This point can also be made in terms of regime theory. The cooperative solution in the simultaneous games played by US and Japan allows for the production of the public goods of ultimate liquidity and of ultimate demand to the world system . In some sort the hegemonic role played by te US alone in the seventies and early eighties will now be played jointly by the two larger countries. A bilateral monopoly will have taken the place of hegemony.

## 5. Graphical Summing Up

In this paragraph we will present a graphical summing up of the interaction between the development of financial instability in the North-South debt relationship and the presence of simulataneous games in the US-Japan relationship.
In fig 1 the BB schedule is a transformation curve of credit (C) into exports. It represents the ability of the borrowing country to use funds obtained in the credit market into exports by increasing its productive capacity. It therefore represents what may be considered a "long term" relationship between exports and credit (where a short term relationship would assume exports and credit to be substitute sources of funds for the country in question). In other terms the BB schedule may be considered a "production function" in which credit is the input in the export producing sector.

The LL schedule represents a credit supply curve of the banking system . Credit awarded is a positive function of exports as increasing exports mean increasing creditworthiness. If we assume that credit rationing conditions prevail the amount of credit will be supply determined, in the sense that the borrower will accept all the loans the banks will decide to award.

Figure 1 about here

It is easy to see that the equilibrium described in fig. 1 is unstable. If, starting from the equilibrium point **a** where OC1 credit is awarded, banks decide to increase their advances to the borrowing country (e.g. because sovereign lending has become more attractive) they will shift to point **b** and the new amount of credit will be OC2. This will allow the borrower to shift to point **c** on its BB schedule thus increasing exports from OX1 to OX2. Higher exports will induce banks to award a higher amount of credit OC3, corresponding to point **d** on their LL schedule, and so on.
This unstable motion away from point **a** clearly depends on the relative slope of the schedules. It is easy to see that, were the slopes of BB and LL inverted, the behaviour of the two agents would have produced a stable motion towards point **a**. The slopes in the figure reflect

behavioural assumptions. The marginal propensity to lend with respect to exports (creditworthiness) of banks is proportionally greater than the ability of borrowers to transform credit into exports. In other words we assume that banks are affected by "lending euphoria" in sovereign lending. This beahvioural assumtion finds a rigorous treatment in recent works by Guttentag and Herring (1983,1985) who discuss the behaviour of banks in the Latin American debt crisis. They formalize the behaviour of banks in overlending by considering what they call "disaster myopia", i.e. a tendency to neglect low-probability hazards that may produce heavy losses such as a major financial crisis.

This very simple representation can take into account the effects of the state of the international economic environment. We may assume that ceteris paribus the position of the BB diagram depends on the level of world demand . A higher level of world demand will shift the BB schedule to the left and viceversa. The assumption here is that exports depend on both productive capacity, which itself depends on credit (supply conditions) and on external (demand) conditions. For a given amount of credit, and hence capacity conditions, exports will be higher the higher is world demand.

If higher world demand is associated with easier monetary conditions in the international economy banks will be willing to lend more for a given creditworthiness assessment of borrowers and the LL schedule will shift to the right. The opposite will result in the case of tighter monetary conditions.

Let us now suppose that , due to the result of the debt game between US and Japan , an adjustment takes place in the US economy which leads to a decrease in the level of world demand. This situation is depicted in fig.2 . Starting from point **a** the initial credit allocation OC1 will allow the borrower to export OX1 for a given state of world demand (B1B1 schedule) . If general conditions do not change banks will react to OX1 by granting OC2 by moving to point **b** on their L1L1 schedule . Let us now suppose that a drop in US (and hence world) demand takes place. The drop in world demand will shift the borrowers export schedule into e.g. B2B2. The amount of credit OC1 will produce OX2 exports. If banks were unaffected by the change in international conditions they would react to OX2 by granting OC3 credit (point **d** on their L1L1 schedule). However, if we assume that tighter international conditions affect bank behaviour as well, the credit supply schedule will shift e.g. in L2L2. Consequently for a given amount of exports OX2 banks will grant OC4 credit by moving to point **e** . This will allow borrowers to export OX3 (point **f** on the B2B2 schedule). The interaction will produce an explosive motion away from the initial equilibrium and the process will lead to a debt deflation.

Figure 2 about here

Let us now introduce simultaneous games between US and Japan under the assumption that the level of world demand is dependent on the ability of the US to decrease her debt vis-a-vis Japan. As discussed in the previous paragraph US and Japan are engaged in two simultaneous games, a debt game and a security game . This situation is described in fig. 3. The box diagram confronts the indifference curves of US and Japan. The borrower's (US) utility increases when her liabilities decrease, i.e. when the lender's (Japan) assets decrease. Financial assets are measured

along the horizontal axis, US's and Japan's utility increase with the amount of defense expenditures, This configuration reflects the peculiar positions of the two countries in the international system, The US , as a declining hegemon, is interested in decreasing her financial dependence on Japan but is also interested in maintaining an adequate level of military expenditures so as to provide the public good of military alliance, Japan , as an emerging leader is interested in strenghtening her financial positionas an international creditor, and at the same time is interested in increasing her military build-up, It si irrelevant here to decide whether Japan's preferences are self generated or induced from outside pressures,

Figure 3 about here

Our starting point is a where Japan's assets (US liabilities) are high and her military expenditure is low with respect to that of the United States,
If a cooperativce solution is found for the two games the two countries will shift to point **b** which is clearly superior to point **a**, In this situation both US liabilities and defense expenditures will be lower, The two results are connected, as discussed above as lower defense expenditures will allow for an improved external position,
This outcome feeds back onto the debt market described above, We may assume that the sounder US financial position will allow the generation of a higher level of world demand, This will prevent the BB and LL schedules in fig, 2 from shifting to B2B2 and L2L2 thus avoiding the debt deflation process from developing,
This simple graphical representation suggests also that a satisfactory solution may be found if we take into account a beahvioural change with the banks and with the borrowers, If banks decrease their lending euphoria and take a more conservative attitude vis-a-vis sovereign lending and, borrowing countries find it more difficult to trasform credit into exports the relative inclination of the BB and LL schedules will be inverted, In such a case the borrower lender interaction will turn into a stable process, This also means , however, that the role of world demand in allowing for more exports will increase considerably, This case is depicted in fig, 4, Starting from point **a**, which is a stable equilibrium, exports will increase only as a consequence of a higher world demand which shifts the BB schedule into B2B2 (for

simplicity's sake we will ignore the effects on LL). The system will move through points **b, c** into the new stable point **d**.

Figure 4 about here

## 6. Concluding Comments

The analysis of a financial crisis may be divided into two parts. One is the interaction between creditors and debtors, the other is evolution of the environment within which the crisis develops and eventually breaks out. In the case of an international financial crisis the environment is determined by the interaction of the larger economies.

In this paper we have concentrated on this latter aspect. We have argued that the Latin American debt crisis may be interpreted in terms of the financial instability hypothesis developed by Hyman Minsky and extended to an international economy. According to this approach the proper functioning of a complex financial mechanism , such as the one we are discussing about, requires the fulfillment of two conditions; a high and stable rate of growth of demand and an adequate provision of ultimate liquidity to face distress. The way in which these two public goods are provided is determined by the international environment, or, to put it differently, by the organization of international regimes.

We presently live in a situation in which declining US hegemony is being replaced by a multilateral structure and , in particular, by a duopoly caharcterized by the emergence of the world's largest cerditor, Japan. Such a change in the structure of the international system has been accompanied by what is sometimes called a "North-North debt crisis", i.e the transformation of the former hegemon into the world's largest debtor. The solution to the North-South debt crisis is now closely tied up with the solution of this new debt crisis. While some argue that the next century (if not the next decade) will witness a japanese hegemony in the world system, the present crisis requires that some form of cooperation between the two leading economies is found in order to provide support for the dollar denominated debt mechanism. Such a cooperation may be facilitated if one considers that relations between the two economies involve more than one field. In addition to finance US and Japan must cooperate in other critical fields such as trade and security.

In this paper we have offered an example of the benefits of increasing cooperation in other fields , besides the financial and macroeconomic one, that may derive to the international environment and hence to a solution of the debt crisis. We have shown that cooperation in the security field may increase cooperation in the financial field and that important benefits may derive for the international environment. This does not need to be the only possible case. Hopefully cooperation in the debt area can be improved by more cooperation in related areas such as trade rather than through an increase in military commitments. One point, however should be stressed. A positive solution to the debt crisis requires the generation of a stable international environment which, in turn, cannot be but the result of an improvement in international cooperation. It is indeed surprising that several scholars and commentators are now arguing that the US should adopt what

may be defined a "new benign neglect" in her international economic policy. The fact that hegemony is no longer there should show that this is simply no longer feasible.

Notes

(1) This paragraph partly draws on Padoan (1986)
(2) Aivazan and Callen (1983) have suggested a distinction between technical and effective bankruptcy. The latter develops when the lender decides to suspend further support to the borrower already in a situation of technical bankruptcy.
(3) See Darity and Fitzgerald (1984) for a more formal treatment of a similar model.
(4) See Guttentag and Herring (1985) for a formal analysis.
(5) See Guttentag and Herring (1985).
(6) This aspect is discussed in Guerrieri and Padoan (1988).
(7) The discussion of regime theory can be found in Krasner (1983), Keohane (1984), Oye (1985).
(8) Free riding may take the form of neomercantilist macroeconomic policies, i.e. the pursuit of trade surpluses. See Padoan (1986) , chapter 3.
(9) This not in the sense that US demand directly determines world expansion, rather in the sense that US policies determine the environment for growth.
(10) A detailed analysis of this point can be found in Oye (1985)
(11) An analysis of international economic power can be found in Keohane (1984). For a discussion of financial power see Strange (1982).
(12) See for instance Gilpin (1987).
(13) On Japan's changing international financial power see e.g. Frankel (1984), Haynes, Hutchison, Mikesell (1986); Matsukawa (1987).
(14) We may disregard, at this stage, the role of Europe as an "engine of growth".
(15) See Bergsten and Cline (1985), chapter 3.
(16) On the exapnsion of the japanese financial system see e.g. Sakakibara and Nagao (1985), Iwami (1988)
(17) See e.g. Krugman (1985), Cohen (1988)
(18) Given the degree of centralization and policy control over Japan's financial system this may be considered a policy move rather than a reaction of the market.
(19) The linkage between security and finance is a funadamental characteristic of international relations. See Gilpin (1987).
(20) See Defense Agency (1988)

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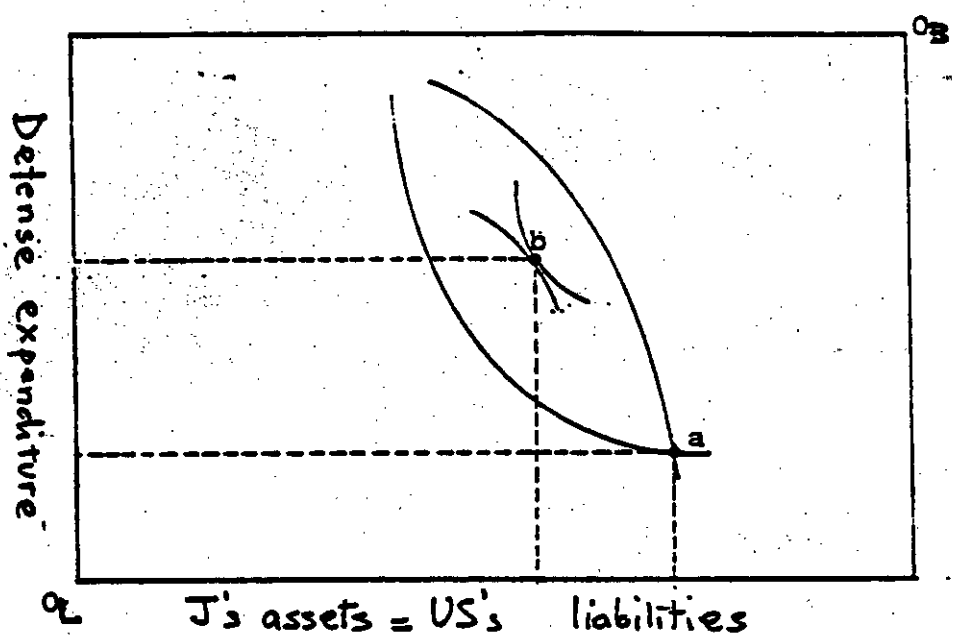
Defense expenditure
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b
a
J's assets = US's liabilities

Fig. 3.

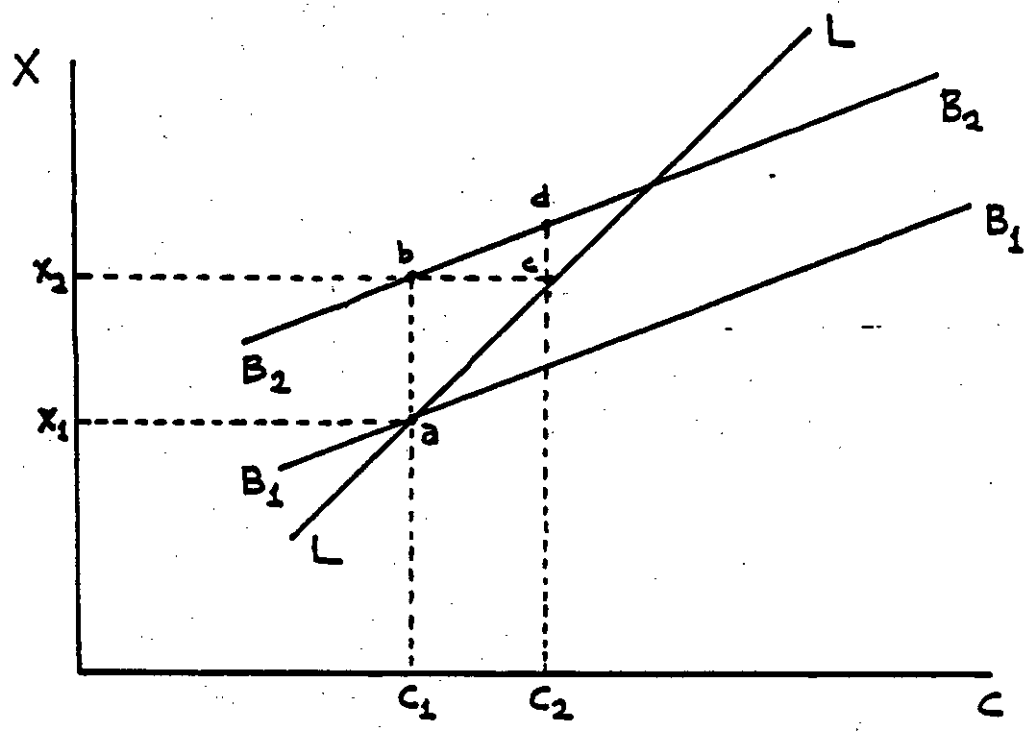
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Fig. 4

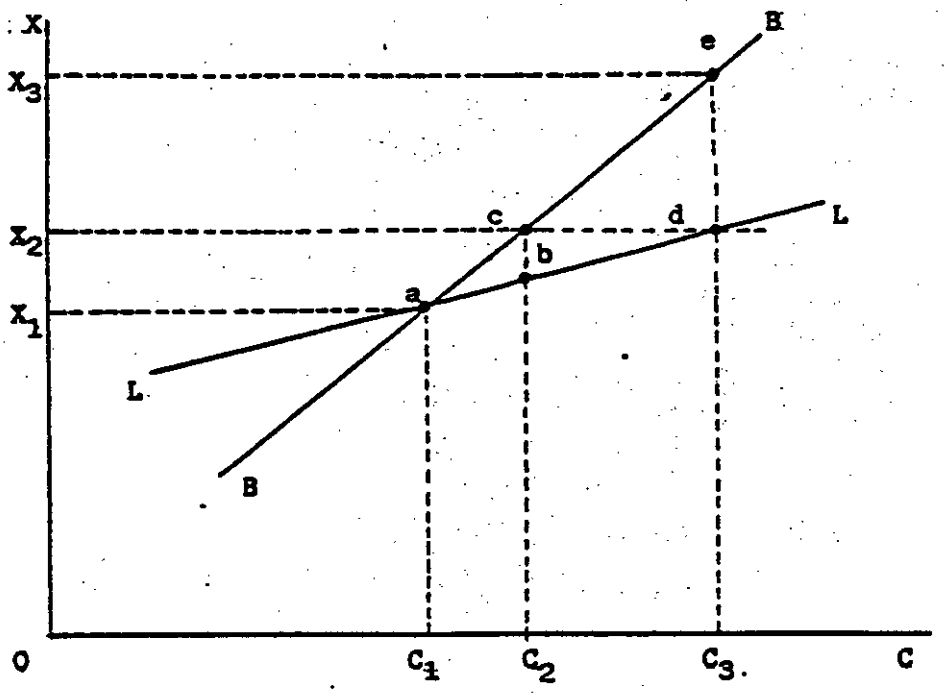
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Fig.. 1.

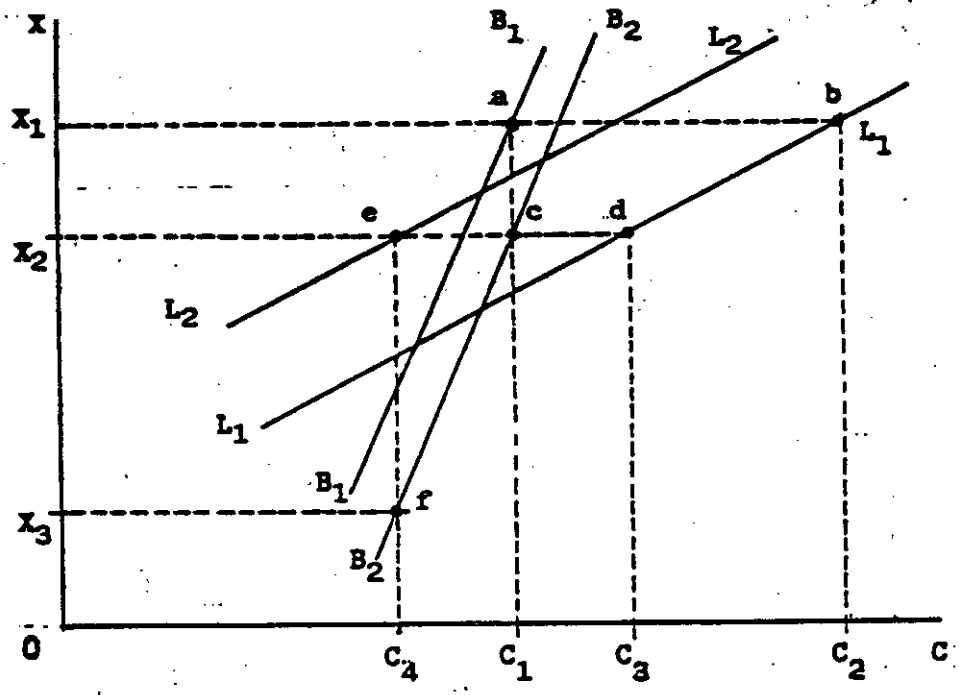
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Fig.. 2.

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(4)

# ITALY AND THE OUT OF NATO AREA INTERVENTION

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The "out of area" dimension

There are two dimensions to Western European countries' ever more frequent interventions in the out-of-NATO area. First, the geopolitical dimension justifying intervention on the basis of threats to national security interests: France, for example, intervened in Chad, in Lebanon, in the Persian Gulf, etc. because it was required by French political and economic interests. The same threat may concern more than one country at the same time, thus leading to so-called multinational interventions. These are the result of the convergence of the interests of different countries and not of a predetermined solidarity within a multilateral alliance. This is proven by the fact that in both Lebanon and the Persian Gulf, there was no formal coordination. Besides this, there is a dimension which might be called "Transatlantic". Within this dimension, European countries intervene in relation to threats which they may not necessarily consider as such, but which the United States does. Thus, the "Transatlantic" dimension justifies intervention on the basis of the European countries' interest in supporting the US, in that it is a fundamental factor in their security in Europe, regardless of their opinion of the threat. As is obvious, and as was seen in the eighties, very serious conflicts can arise in this dimension.

Another but no less important aspect of out-of-area intervention concerns the specific organization of European allies. The European countries' recognition of their common economic interests and the resulting institutionalization in the framework of the European Community has made it possible to define common objectives in this area and to organize Community policies, agreements and institutions, which have certainly had considerable impact. The absence of a common security concept and common defence institutions, along with the institutional weakness of European Political Cooperation, has resulted in the fact that an analogous politico-military Community presence in the out-of-area sphere has never been developed. Whenever it has occurred, the joint presence of European countries in the out of NATO area has been a multinational presence, not based on European solidarity.

This is not the only consequence of the lack of European political integration; another important offshoot is the European countries' weakness in negotiating American requests and motivations in the "Transatlantic" dimension of out of NATO area intervention. This weakness is not a secondary cause of the ineffectiveness which can, after almost ten years of experience, be ascribed to the American, and overall Western "out of area" presence. A stronger "European pillar" would not prevent - and might exacerbate - conflicts and controversies about the aims and modalities of intervention, but would certainly make intervention, once decided upon, more decisive.

Southern Europe and the "out-of-area"

Southern European countries have a specific role to play with respect to these problems. They can affect the "Transatlantic", as well as the European dimension either positively or negatively, and this makes analysis of their role important.

Southern European countries lie on the border of the out of NATO area. Although the nature of their economic and political interests is not substantially different from those of Northern European countries, their

security perceptions, their historical and cultural ties and sometimes even their economic and business interests are different and more intense than those of non-borderline allies. This situation makes them particularly exposed to the conflicts implicit in the "Transatlantic" dimension. Wherever the institutional framework of the Alliance is lacking, such as in out-of-area operations, bilateral relations end up prevailing between the United States and her European allies. It is no coincidence that these bilateral relations, which parallel multilateral ones, are more important between US and Southern European countries.Taken individually, the countries in the south of Europe are objectively weak with respect to the US. In the discussions or controversies which arise time and again in relations between the two parties, the Southern European nations try to find compensation in anti-American rethoric or price of bases or constituencies' increases, but in the end, they do not prevent the United States from pursuing policies which would have to be negotiated on totally different grounds in a multilateral context of the framework of the "European pillar". The hijacking of the Achille Lauro liner and the events that followed at the Sigonella base provide a clear lesson in this sense.

Therefore, the positive role which can be expected from Southern European countries is a contribution towards the strengthening of the European institutions, in order to gain a more effective bargaining position in negotiating with the US, or a contribution towards strengthening of the procedures of Atlantic consultations, or both. On the other hand, the contribution could be negative -and on the whole so it tends to be presently- if national interests were strictly to prevail in the countries of Southern Europe. A higher profile for Southern European countries could have either a positive or a negative effect on the allied position with regard to the out of area question and therefore, a positive or negative effect on the West's stance in relation to the global transformations it is about to face.

Moreover, the very limited European coordination of out of area military operations, organized inside the WEU during the Gulf crisis, did not include a majority of the Southern European countries, not being WEU members. While this problem could be somewhat easied by the likely enlargement of the WEU to Spain and Portugal in the near future, it will remains very much alive for other countries such as Greece and Turkey (as it will stand the problem of coordinating the WEU machinery with other exixting European and Allied machineries).

Italy and operations outside of the Nato area

Italy has accumulated a good bit of experience in out of area operations. In July and August of 1979, two cruisers and a support ship sailed to Southeast Asia, as a back-up to an analogous American operation rescuing the 'boat people' - refugees who fled from Vietnam on makeshift craft. In July 1980, the government put a helicopter unit at the disposal of Unifil, the peace keeping force in Lebanon. In April 1982, it helped set up the international force provided for by the peace treaty between Egypt and Israel (the Multinational Force and Observers - Mfo), sending three minesweepers to keep the Strait of Tiran open. Participating in the Sinai mission were also Australia, France, New Zealand, Norway, the Netherlands, Uruguay, the United Kingdom and the United States. Between August 1982 and February 1984, Italy took part in the next two Multinational Interposition Forces stationed in Beirut along with France, the United Kingdom and the United States, sending a land force approximately 10,000

strong and a small squadron of frigates, destroyers and landing craft. In August and September 1984, the Italian Navy took part with two minehunters and a support ship in the minesweeping operations in the Red Sea, alongside British, French and American (and also Soviet, Egyptian and Yemenite) vessels. Finally, 15 September 1987 marks the date of the beginning of the mission of the Italian fleet, composed of three frigates, threee minehunters and two support vessels, to clear mines and protect national merchant traffic in the Persian Gulf, alongside American, French, British, Belgian and Dutch ships. The Sinai and the Unifil missions are still underway. The mission in the Persian Gulf is about to finish at the end of 1988.

Obviously, this is a rather heavy commitment, and even more so if one takes into consideration certain non military or not strictly military aspects. In fact, mention must be made of the unilateral guarantee of Malta's neutrality, pronounced on the occasion of the ratification of the September 1980 treaty for economic, technical and military assistance between the two countries. The treaty was renewed in 1986. Furthermore, it should be pointed out that the Mediterranean and sub-Saharan Africa are prioritary among the geopolitical directives orienting Italian aid flows. Looking at the countries receiving the most Italian aid in these two regions, we see that they are the countries in the Horn of Africa, Egypt, Tunisia, Malta and Morocco, that is, countries deeply involved in out of area developments.

This commitment has been recognized at government level as a new and important factor in Italy's foreign policy. As a result, it has greatly affected military policy options and foreign policy lines. The White Paper put out by the Ministry of Defence under Minister Giovanni Spadolini, promoted a reorganization of the Italian armed forces by missions, and among these missions, gave considerable importance to the out of area mission. Despite the usual inter-services disputes, trends in weapons systems procurement have been affected and supported for quite some time now by the prospect of projecting the Italian military instruments toward southern theatres, besides the southern flank of the central front.

The military missions and the other foreign policy options mentioned previously have been presented by the governments promoting them as part of a broader Italian Mediterranean and Middle Eastern policy. In the framework of a general policy of support for moderate countries in the area, allies of the West, this policy has concretely been applied on a number of occasions: support given to the negotiations between Jordan and the Palestinians, more precisely the Plo; the support given Egypt during the 'Achille Lauro' and Sigonella crisis; the repeated assurances given Tunisia with regard to Libya, etc.

Diverse domestic policy orientation

Although consistently and uninterruptedly pursued by the various governments that have succeeded each other since the beginning of the eighties, Mediterranean policy and Italy's out of area projections have caused a deep split among political forces. With the mission in the Gulf, this split became a chasm. The contrast is between two main lines, one which is more in favour of Italy's role within the Atlantic Alliance - with variations dectated by different aspirations related to the independence of that role and historical and cultural differences with respect to Zionism - and another supporting Italy's autonomy outside of the Atlantic framework and her possibilities as a mediator there.

Pregnant with ideological and ideal overtones, this contrast was never clearly presented to the country's public opinion during the course of the heated debates that accompanied the out of area missions, the application of Mediterranean and Middle Eastern policies and the approval of the military and weapons procurement policies of recent years. When these much-discussed decisions were being taken, public opinion was provided with motivations that were more or less excuses, like humanitarian assistance to Palestinians at the time of the mission to Lebanon or the defence of Italian shipping through the Gulf today. It is not that these objectives are absent, but they certainly do not reflect the actual foreign policy debate underway among political forces. Then again, the debate is not between the government and the opposition, but cuts across both sectors. Therefore, taking the mission in the Gulf, after reaching a compromise about how it should be presented to the public (mine-clearing and protection of shipping), in actual fact, supporters are concerned with Italy's link with her Western allies, while those opposing the mission fear a weakening of Italy's autonomy and of the national room for maneuvre which that autonomy gives her. There is, therefore, a divergence between one foreign policy view aimed at giving Italy a higher profile in the Atlantic framework and another view which, while detracting nothing from her Western link, tends to see out of area policy as her chance for a higher profile on a national level and thus, urges dissociation of Italy's image from that of the United States, NATO and the Western allied presence in those regions.

Italy, European security and the "out of area"

It should now be evident in what way the out of area questions, as 'issue-linkages' at different levels of international political relations, are pertinent to the Italian situation. In the first place, the question of the link between European security and the out of area presence. The Minister of Defence, Zanone, and 'lay' government forces in general, saw the mission in the Gulf as a factor aimed at ensuring this link. Instead, the view of the then Prime Minister and Foreign Minister, Goria and Andreotti, seems more complex. With reference to the Gulf, they spoke of the need to combine Italian foreign policy with the prospect of UN political and/or military intervention, and seemed more reluctant to take on a commitment parallel to that of the Americans and of the other European countries in the out of area theatre. At the same time, they emphasized Italy's absolute association to Nato and the US guarantee versus the proposals recently made by the French and German governments for greater solidarity in Europe on the subject of defence in the European theatre.

These attitudes may give the impression of inconsistency in government foreign and security policy, which at times considers Italy's association with the United States and Nato a priority and at times considers it inappropriate. Yet, this inconsistency is merely the logical pursuit of a foreign policy in which the quest for a national space autonomous of Nato in extra-European areas is more important than the perception of East-West and inter-Atlantic changes presently affecting both Western Europe and Italian security. This policy is firmly rooted in the belief that security and tensions are divisible.

Italy, Southern Europe and the "out-of-area"

On the other hand, those who support out of area operations in that they constitute a factor in a policy of closer association with Western allies, do not seem to give adequate consideration to some important vulnerabilities.

The deepening of Italy's role in out of area operations is occurring in a context which is totally unprepared from an institutional point of view, such as is the case at the Atlantic level, or only slightly prepared, as in Europe. We have seen how this leads Southern European countries, which are more directly involved in the instability of the southern theatres, to enter into prevalently bilateral relations with the United States, creating conflicts and frustrations counterbalanced by merely rhetorical national benefits. By taking on more weight and responsibility in the management of crises to the south of Nato, Italy is particularly exposed to these risks, as was seen in the series of crises beween 1985 and 1986, the years in which terrorism raged. It is even more so, if one thinks of the current tendency of other Southern European countries, in particular Spain and Greece, to dissociate themselves from Nato commitments and security relations with the United States. This tendency foreshadows an intensification of American security requests to its most reliable ally on Nato's southern flank. This tendency should provide an incentive for supporters of out of area operations to work for the creation of a suitable institutional fabric. Lacking that, the aim of greater Atlantic solidarity and a link between European security and out of area operations could be jeopardized.

With its past decision to install the Euromissiles, the Italian government cancelled the 'non-singularity' clause imposed by the Federal Republic of Germany and made it possible to concretely undertake the policy of European rearmament decided upon by Nato. It thus contributed to reinforcing Atlantic solidarity and European security. At the same time it achieved a higher profile, greater authority and, therefore, more autonomy within the Alliance. A parallel might be drawn between the German position on the Euromissiles and the Italian position on out of area operations, to the extent that both questions deal with aspects of European security. In associating itself with out of area operations, Italy should insist upon a 'non-singularity' clause, as Bonn did for the Euromissiles. Nevertheless, whoever senses the importance of Italian participation in out of area operations today, with the same objectives of solidarity and autonomy within the Atlantic framework that led to the decision on Euromissiles, cannot be blind to the fragility of the connection in the case of out of area operations, between solidarity and autonomy, because of the absence of institutional links and the erratic and fragmentary interests which the allies, as a consequence, dedicate to these operations. Italian autonomy could grow without ever turning into Atlantic and European solidarity, thus becoming a policy of a national or nationalistic nature. Therefore, Italian participation in out of area operations must be accompanied and conditioned by strong pressure for progressively greater Atlantic institutionalization and, more importantly, for greater effectiveness of European institutions. This could be the scope of an Italian 'non-singularity' policy, that is, a policy in quest of, first, European solidarity, and second, Atlantic solidarity. This policy would also provide the consensus needed domestically to identify the interests of peaceful international security shared by all of Italy's political forces.

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# ECONOMIC SECURITY IN NORTH-SOUTH PERSPECTIVE

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## Introduction

The concept of economic security is not very well established or defined, so that it is necessary, in the first section of this paper, to clarify our use of it, and demonstrate its pedigree and its relevance. Second, because it is so clear that the preponderant economic security problems in the North-South context have so far lain with the countries of the South, those problems are diagnosed, and the various strategies available to Third World countries to deal with these insecurities are traced and categorized.

In the final section of the paper, the stakes and options for industrialized countries will be examined. First, it will be recalled that, even in the past, the whole weight of economic insecurity in the relationship has not been on the developing countries. The dramatic economic 'aggression' of the oil embargo and OPEC cartel action was that much more threatening and destabilizing because it came as a 'turning of the tables' in a longstanding pattern of successful reverse 'aggression' in that industry where Northern vulnerability proved very high. It is argued that this economic security threat to the North has neither subsided nor been overcome, although it seems unlikely to be replicable with other commodities. The 'strategic minerals' concern and its relevance will be reviewed briefly.

More generally, however, the North-South picture of economic security is viewed in terms of shifting patterns and frontier issues of interdependence. The market importance of developing countries, as well as the evident global environmental strain aggravated by mass poverty, give new weight and immediacy to the Brandt Commission's thesis of mutual interests in Third World development - to a kind of common security regime in the economic realm. The linkages among debt, financial flows, protectionism and new trade issues are used to draw out the possibilities for new economic security bargains, facilitated by a broader consensus on economic pragmatism. Implications of failure will be reviewed against Southern strategies.

'Economic Security': A Relevant Concept?

Traditional discourse in international relations tends to place the concept of 'security' in its sharpest and narrowest focus, relating it particularly to military security. However, even in that narrowest construction of the term, analysts soon proceed to a second level of definition, since most are prepared to recognize that military might is only rarely an end in itself. They are thus ready to specify what military security is intended to protect. In the modern international system, the relevant unit for protection is the nation-state, and a state is secure to the extent that it does not have to sacrifice its 'core values'.

While noting that states cannot hope to achieve absolute security, they seek "what they calculate will be a reasonable likelihood that they can design and operate their own institutions in their own territory." (Beaton 1972, p.9) The recognition of the relative character of security is growing stronger and becomes more apparent still when attention is directed to the non-military constraints on the capacity of a state to design and operate its own institutions.

Economics has always played a role in this wider security picture. Even in the most ancient conflicts - for example in the Athenian boycott decree against the Megarans that helped trigger the Peloponnesian War- non-military means of exerting pressure on other states were developed and used ( either as substitutes or complements to military pressures). Prominent among these means have been economic boycotts, embargoes and blockades of various kinds, and they have long been recognized as weapons or levers - sometimes highly cost-effective ones- in terms of achieving compliance with limited investment of funds and without casualties. (See Hirschman 1969 pp.16ff. and Baldwin 1985)

In this sense the notion of 'economic security' is far from new in thinking about international relations, conflict and strategy. Further, the goals of all iternational competition and warfare have often had a strong and explicit economic component, whereby

slaves, plunder and imperial tribute were the spoils of the victor, and extreme and prolonged economic insecurity and exploitation the lot of the vanquished. The history of various kinds of imperial relationships includes many examples where continuing mechanisms of economic subjugation were used not simply to extract economic benefit but also to truncate local institutions and atrophy the economic sinews essential to successful rebellion.

Finally, and perhaps most importantly of all, we must take account of the fact that in the modern era at least, economic and technological strength have increasingly become the main well-springs of all power in the international system, including ultimately military power.

The recognition that economics has always figured prominently among the means and ends of military security suggests that, even by the most narrow and traditional standards, at least some concept of economic security merits the most serious consideration alongside that of military security itself. Meanwhile, as Gilpin points out, "In the modern world, the great expansion of world market relations has obviously enhanced the role of economic power as an instrument of statecraft." (Gilpin 1981, p.218)

Moreover, to whatever extent one is prepared to entertain hypotheses about the diminishing utility of military power in the modern world, the utility of purposive economic means for enhancing one's own state's security or undermining that of others may well increase - although the facts of interdependence may also raise the costs of such action (at least to the extent that such interdependence is at all symmetrical) . It is also extremely important that the preoccupations of states (in foreign as in domestic arenas) have shifted markedly toward emphasizing the enhancement of the economic and social well-being of their citizens. The shift of focus from "high" to "low" politics, while far from total, does imply that economic interactions define conditions like security and insecurity to a much greater extent.

The fact that asymmetrical economic security relationships often seem to figure importantly in

sustained, unequal power relationships at the international level also strongly suggests the value of testing how the concept may apply to North-South relations in the contemporary world. A non-marxist examination of these international economic-power relationships, it should be noted, must proceed along more unmarked paths than those of the adherents of various schools of marxist analysis.

'Southern' Economic Insecurity: Diagnosis

In any discussion of security in a North-South context, we should immediately take note of a Third World view, crisply expressed by Mohammed Ayoob, to the effect that, even in the domain of military security, the perspective from the South is qualitatively different from that prevailing in the North:

"The three major characteristics of the concept of state or national security in Western states - namely, its external orientation, its strong linkage with systemic security and its binding ties with the security of the two major alliance blocs - are, in the Third World, if not totally absent, so thoroughly diluted as to be hardly recognizable." (Ayoob 1983/84 p.43)

It is not necessary here to re-visit the longstanding debates about the relative importance of the various sources of economic and political weakness among most of the countries of the South today, nor even to allocate responsibility to Northern countries in the colonial and post-colonial periods. The simple fact is that most developing countries are so exposed and vulnerable to outside forces beyond their control in key areas of their economic life that they fall short of any reasonable standard of economic security.

By definition, most developing countries suffer, as stressed earlier, from serious internal weaknesses - of economic development and often social and political integration - and, partly as a result, they may be doubly vulnerable to external political and military influence, as well as to economic influence itself.

It is difficult to escape the judgement that for all the poor countries, except a few of those most strategically placed, their economic insecurity is the crucial characteristic in defining their relationship with Northern countries.

Typically, their economies are importantly dependent on trade, much of it North-South in direction, and the terms of trade for their few key products have suffered sustained declines. (It is worth noting at least one belated acknowledgement of the evidence supporting Raul Prebisch's original assertion to this effect. See Drucker 1986, p.775). They are frequently in the position of being among many competitive producers facing consumers who are capable of much more organized market behaviour, if not outright monopsony or oligopsony.

The currency/ies in which they must trade are not their own, and are mostly beyond their effective influence. The interest rates on their borrowings are in effect determined incidentally by economic policy decisions in key Northern countries, while the effects of rate changes brought about in this way can easily produce massive trauma in their economies.

At any stage that they have sought or accepted economic help, it has usually brought with it imposed commercial or political conditions, and the 'stabilization' and 'structural adjustment' programs now so often forcibly prescribed by international agencies (dominantly governed by representatives of Northern countries) have the effect of de facto trusteeship over large areas of their economic and social policies, with major political implications.

Where they have been able to develop viable new export strength, typically drawing on their clear comparative advantages to produce labour-intensive, standard technology goods, they have frequently been met with discriminatory import barriers in most of the industrialized countries.

Meanwhile, they also confront a world where the

keys to future economic leadership, in the form of the leading technologies and the means to develop new ones, are mostly in the hands of industrialized countries as well.

Simply to recite this sweeping and depressing litany of the economic vulnerabilities of Third World states is not to opt for any particular position on their causation, their inequity or their iniquity. It should be sufficient, however, to drive home the intense across-the-board sense of external economic insecurity felt among leaders and elites of most developing countries. Even allowing for the universal tendency of leaders to find external scapegoats wherever they can for their own failures in economic management and other fields, there is clearly a great deal of substance and immediacy to their 'economic threat perceptions'. These perceptions are even more acute since the internal economic, social and political repercussions of negative external impacts can be critical for the survival of their regimes.

Joan Spero usefully distinguishes the dominant mode of the North-South economic subsystem as being one of 'dependence', contrasted with the Western subsystem of 'interdependence' and the East-West subsystem of 'independence'. She distills the implications:

"Unlike the Western system, which is composed of relatively similar and equal actors, the North-South system is one of disparity and inequality between North and South.... Whereas interdependence involves a high degree of mutual economic interaction and mutual sensitivity, dependence denotes highly unequal economic interactions and highly unequal sensitivity.... Usually these dependencies -trade, investment, money, aid- are reinforced by other types of relationships with the North: cultural ties, alliances and treaties, more informal political ties and military links ranging from military aid to military intervention." (Spero 1977 pp. 14-15)

Whether or not by intent, the North has achieved and maintained - because of the economic insecurity of the South at its hands- a degree of control over the access to wealth, opportunity and

power that may be without parallel in history. Both the past and the potential implications, for both developing and industrialized countries, merit careful examination.

## 'Southern' Strategies, Past and Possible

"... most of the policies of developing countries can best be understood by reference to their grave need to increase their individual security in an extremely insecure world. While all states, not only developing ones, are concerned to increase their security, for the developing states, it is of acute importance given their general vulnerability in the international system. Their security is threatened on all levels: domestically, by different groups competing for power in a political system where consensus is often totally absent, and by the inability to provide secure systems of food and health care, employment and education for their people; and internationally, by predatory powers (usually, but not always, great powers ) and by international institutions and multinational companies eager to make policy decisions for Third World states." (Thomas 1987 p.xii)

In a situation such as the one depicted above, a government's policies, both domestic and foreign, are inevitably part of a scramble for survival. Most developing country leaders did not initially see things in these terms, in the glow of decolonisation and independence, but it was soon to become clear that their newly-won sovereignty was highly qualified in the political realm and under constant and critical threat in economics. It is significant that Latin America, where formal political independence had long been established, was producing analyses of the phenomenon of 'dependency' while Asian and African colonies were flushed with gaining their independence.

Governments have pursued a wide range of strategies and tactics, on a national, regional, and pan-Third World basis in the effort to reduce this insecurity, and this section of the paper attempts to describe and categorize those strategies. It should be noted that many of these approaches have overlapped or coexisted in various combinations at various times.

### 1. Developmental Mobilization

For many Third World countries in the nineteen fifties and sixties, an expectation of rapid economic

development carried with it the hope of greater security, both domestically and internationally. With colonial exploitation ended, the assumption ran, great new reserves of wealth would become available for national needs. More than that, brave experiments could be carried out with political, social and economic systems, shucking off what were seen as imposed, exploitative and inappropriate colonial models. The experience, as is well known, has mostly been bitterly disappointing: even though, by historical standards,

many developing countries have maintained impressive rates of economic growth and social improvement, the shortfall below needs and expectations is critical for all but a few.

2. Political Auction/Blackmail

A classic, if usually only partly purposive approach, typical of the early Cold War era, in which bids were taken from East and West, presumably for a claim on the 'hearts and minds' of Third World countries. Short of a few strategic cases which could be maintained, most attempts proved unsatisfactory to all parties. In some cases led to 'sales', with resulting guarantees or protectorates.

3. Solidarity/Alliances

a) Regional Cooperation. Early pan-Africanism was at least partly spurred by a desire to strengthen bargaining power through cooperation, as were free trade impulses (Latin America) and Common Market initiatives (Central America, East Africa). For whatever reasons, the area with the regional cooperation scheme least explicitly linked to economics - ASEAN - has seen the most significant increase in wealth, bargaining power and ability to reduce economic insecurity.

b) Guarantee and Protectorate Arrangements. The franc zone is a prominent post-colonial example, as are the Yaounde and Lome Convention frameworks in wider and looser forms. The Caribbean Basin Initiative builds on some longstanding sectoral arrangements by the U.S. and Cuba provides the most prominent example of a Soviet economic protectorate, with Vietnam having been a ward of both the superpowers. The latter examples underline how security and economic guarantees can come to fuse, as would the cases of Israel, Egypt, the Philippines, and, more recently, several Central American countries. The record is unimpressive for such arrangements in reducing economic insecurity, since the looser ones rarely go much beyond aid to attack serious economic problems, and the tighter ones tend to strengthen

dependence and heighten vulnerability.

c) Linked Leverage. An approach initiated in the oil crunch of the mid-1970s, with OPEC lending its political weight to the multi-facetted demands of the 'Group of 77' for a new international economic order, especially through the CIEC forum. A small shift in OPEC/IEA bargaining power, together with the cumbersome character of the agenda and emerging differences of interest and priority among Third World groupings, rapidly reduced this coalition to a purely rhetorical one.

4. Negotiation for Change. The establishment and elaboration of UNCTAD crystallized this impulse, leading on to the Pearson Commission, designation of 'Development Decades', the 6th and 7th Special Sessions of the UNGA, the NIEO agenda (to be tested prominently in the negotiation of the Integrated Program for Commodities and the Common Fund), a succession of global theme conferences (heavily linked to development) the Brandt Commission and Cancun Summit, and the efforts to launch 'New Global Negotiations.' Based initially on a combination of grievance-airing and moral suasion, then on dirigiste schemes for global economic systems, and latterly on a still-abstract assertion of mutual interests in fundamental economic change, these diplomatic efforts have never reached beyond the stage of what Roger Hansen called 'Pre-negotiations'. (Hansen 197xx) Even their consciousness-raising impact suffered in the face of the neo-conservative re-assertion of the panacea of the 'magic of the marketplace,' and it must be asked how much these campaigns may have diverted Third World leaders from more promising lines of action.

5. Disengagement. These strategies are not to be mistaken for the economic equivalent of the politico/ military strategy of non-alignment, since almost all Third World countries have remained keen to trade heavily with the West, even if many of their policies have made it more difficult. In terms of foreign direct investment, many had the equivalent of disengagement policies for extended periods, although these are now largely supplanted by enthusiasm.

a) National. Some of China's periods of self-reliance embodied this strategy, although its implications for a continental-size economy are vastly different from those of the aberrant experiments of a Burma. The Tanzanian effort was always quite selective and, anomolously, was dependent on heavy infusions of outside aid. Early strategies of import substitution had important elements of this approach, as has India's general approach. Given a lack of convincing alternatives, this response should not be counted out, especially for larger countries.

b)Regional. For the same reasons mentioned above, regional economic blocs in some parts of the South could become more attractive and possible, especially if the North were to undergo solidification into tight regional blocs of its own (Europe in 1992, North American FTA) without major liberalization of these markets for outsiders. The economic and political difficulties in achieving such integration (even without disengagement) would be every bit as difficult in the South as in the North, but Latin America or its sub-regions could try under certain circumstances - if their vulnerability were raised even higher - as could Southeast Asia. In Africa, a much greater measure of regional liberalization is probably essential to any substantial recovery or development, but sweeping attempts at disengagement would probably only magnify the Tanzanian experience.

c)Pan Third World. 'South-South cooperation' has remained largely an intellectual and rhetorical construct. Given the immensity of the shifts implied, it has little potential to emerge as any thorough-going substitute for North-South relations, although the scope may be present for important selective measures to disengage and/or provide credible alternatives to increase Southern bargaining power. The South Commission, now at work, is intended to canvas these possibilities, among others.

6.Cartelization. The most notable example of this strategy among developing countries remains that of OPEC which, in spite of subsequent weakening of its grip, permanently broke the assumption of Northern invulnerability to actions from the South and remains potentially an extremely powerful cartel. The model proved untransferable to most other commodities of export interest to developing countries. Significant related strategies are those of collaboration to reduce competive investment incentives (as practised for a period under the Andean Pact) and the similar measures possible to translate access to huge potential domestic markets in the Third World into a tangible bargaining asset.

7.Shifting Arenas. At least for some of the larger and more strategically placed countries of the Third World, continued frustration and vulnerability in North-South economic relations may help generate determined efforts to build political and/or military assets to a point they believe will command attention and respect on all fronts. The potentials for nuclear proliferation obviously figure prominently in this scenario, as do regional hegemonies, and buildups of major strength in conventional and chemical weapons. The debatabilty of whether any such assets would be usable to reduce

economic vulnerabilty (and even the further economic drain of the military spending required) do not ensure that this strategy will not be pursued widely, since it can in classic fashion be used by regimes to reduce their internal vulnerability.

8. Rebellion/Revisionism/Outlawry

This ultimate stage in the alienation of Third World countries, most of which at least question the legitimacy of existing rules of international relations as now applied, is to try to reject those rules on a sweeping basis. Revolutionary Iranian and Libyan practices provide some of the most prominent examples

of this impulse although neither is strictly attributable to economic insecurity as such. The potential for this tactic extends well beyond governments, with growing potentials for the extensive use of terrorism.

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# Security Reconsidered:
# Canada, NATO Out-of-Area, and the OECD Connection

**Notes for a Presentation to the YCISS/IAI Workshop**
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## I. Introduction

1. In May 1956 the North Atlantic Council appointed the committee of "Three Wise Men" to advise on ways of strengthening "non-military co-operation" in the Alliance. The nationalities of two-thirds of that Committee (Gaetano Martino and Lester Pearson) are represented here today, and while I do not wish to suggest that we are in any way equivalent in wisdom or influence, it may be that nations such as ours are those uniquely placed in the Alliance to address questions which take us into the fundamentals of co-operation, consensus, voluntary burdensharing, and a re-examination of the ultimate purpose of our association if, for no other reason, than the fact that others are so mesmerized by their own perspectives and unable, or unwilling, to appreciate the concerns of partners somewhat less "endowed" with military capacity.

2. Already in December 1956, with the approval of the Report of the Three Wise Men, acknowledgement was given that the need for intra-Alliance consultation was enhanced due to the continued likelihood that NATO partners would be faced with having to engage military forces out-of-area. Clearly, the two highpoints of international tension that year -- Hungary and especially Suez -- underlined the problems faced by NATO. Compression of time for both decision-making and force mobilization and deployment highlighted a generic problem for any Alliance behaviour: whether within the Northern, Central, or Southern European theatres or external to them, Alliance interests could be threatened in ways in which intra-Alliance consultation might seriously impede timely and effective response. Yet, the assumption of within-Alliance consensus could no longer be seen as valid, especially concerning out-of-area actions, thereby at one and the same time, necessitating consultation in the face of the dynamics of the situation pressing against such time consuming behaviour.

3. The ensuing decade witnessed too many major East-West challenges. In the wake of changes in the balance and posture of forces and of strategic doctrine, The Harmel Report of 1967 reiterated, reinforced, and developed the theme of the necessity for cooperation and consultation within NATO, and this then fed into the "Ottawa Declaration on Atlantic Relations" in 1974. Throughout these years, with the waxing and waning of East-West relations,

it became evident that, while nuclear weapons and strategic doctrine seemed to be managing the North-North/East-West relationship, competition and conflict in the so-called Third World continued to strain and undermine any progress on the self-defined principal relationship of the European front and Soviet-American relations. By 1979/80, with the fall of the Shah and the Soviet invasion of Afghanistan, and the previous years of increasingly insecure access to oil, fluctuating petroleum prices, and inflation coupled with events in Angola and southern Africa more generally, the very real out-of-area threat to NATO became seen, by some, as a more generalized threat to Western Security. In otherwords, events outside the physical territory and political control of much of NATO were challenging the very fundamentals of western security: "to promote peaceful and productive relationships" among the western democracies, and, that given the interdependencies of the advanced industrial countries, such challenges were, by definition, threats to the security of the OECD, of which NATO is an integral part.

4. While technology and experience has done much to alleviate the so-called physical problems of time, space, and movement, we seem to be little ahead in political terms of where the Three Wise Men were over thirty years ago. For example, a number of senior officials and military officers have reported to me that, since the early 1960s, when regular discussions began in the Military Committee concerning the problems of NATO boundaries and being outflanked in the South given the Soviet naval breakout into the Mediterranean (and, of course, beyond into the Horn and the Indian Ocean, as well as now throughout the Pacific), and its unexpected (by NATO) ability to rapidly fill the vacuum left in the Yemen, not much has changed as to what, if anything, NATO should do concerning out-of-area problems. And further, a former senior Canadian officer noted that the eight years between his participation in out-of-area discussions at NATO Headquarters in 1972 and those held at SHAPEX in 1980/81 revealed little change: everyone agreed that there was a problem, but not on what should be done other than acknowledging that the United States remained the principal actor and that, in some situations, Britain and France might also be expected to contribute in a significant way. Though much critical debate ensued, nothing more definite emerged. The Gulf experience, where the US first moved in cautiously, then escalated its commitment, and then found itself sharing space and tasks with allied ships on an ad hoc but co-operative basis, is the most recent chapter. Although over the past fifteen years in virturally every annual North Atlantic Council Communique there is reference to "respect for the sovereignty and independence of all states" and the need to "remain vigilant and (to) continue to consult on events outside the Treaty area which might threaten our common security", there is a clear absence of criteria for determining what those events or conditions might be or for deciding on the appropriate ad hoc response (never mind unofficial co-ordinated activity) except for the implicit (previously explicit) understanding that NATO force postures would not be harmed by the reallocation of national forces outside the area.

II. Canada and NATO

1. Canadian participation in and views on NATO out-of-area have, in my mind, not been exceptional. Our sensitivity to the problem is based on our experiences in that difficult 1956/7 period, our continued concern with American unilateralism (Korea, Iran, activities in Europe) and domestic extremism (Mcarthyism; automaticity of anti-communism) and made still more acute by our ongoing love-hate relationship concerning defence and security matters with the United States throughout the 1960s (Bomarc; Cuban Missile Crisis; Vietnam; UN Peacekeeping).

2. During that same period (1965-early 1970s), Canada did commit itself to develop a specialized capacity to respond to military obligations well outside the NATO boundaries. Mobile Command was developed, with the Ten Tactical Air Group prepared to fight anywhere in the world. Through this period, with forces already familiar with desert conditions coming out of peacekeeping, others were trained in Arctic combat or sent to Jamaica and Australia for jungle combat training. In 1967/8 both DND and DEA were engaged in planning a Vietnam-based initiative where an international force would be interposed on the 17th parallel, and DND was requested to draw up plans for the requisite force size and to be prepared to deploy a Canadian special forces brigade. Canadian authorities had clear perceptions of a military commitment to more than only the NATO arena, and one which included both a more generalized peacekeeping/peace-enforcement role as well as a military combat role. Strangely, this was occurring in the shadow of 1967, when, for example, we initially committed our Allied Mobile Force Land for both Northern and Southern sectors, and CAST to Norway as partial compensation for, among other things, withdrawing forces from the Central theatre, but then, within a year, we realized our own operational limitations and backed out of the Southern Flank commitment and, more recently, out of Norway.

3. The Trudeau years, of course, pursued a foreign policy which combined our long-standing commitment to multilateralism with a much more aggressive policy towards the development of broadly based bilateral relations world wide. So-called "domestic determinants" of our external relations gained increasing prominence in the evaluation of priorities, especially in terms of economic issues. Defence commitments became a second-order problem.

Ironically, it should have been under this administration that a critical reassessment was undertaken of what it meant to talk about "Canadian security", since the Trudeau government was clear on its commitments to extend and intensify relations with countries in Europe, Asia-Pacific, and many parts of the Third World, while at the same time the Soviet Union and the United States were coming out of the euphoria of detente and into the depression of regional competition and confrontation. Mitchell Sharp, then SSEA, stated that the reason for the foreign policy review was to assess whether the current level of contribution to these organizations (NATO, UN, Commonwealth, Francophonie) was in the national interest of Canada. Did such a contribution allow Canada to make an effective contribution to world peace? The question was not whether to ignore the Alliance but rather to reassess the level of commitment relative to the extent to which Canadian

efforts contributed to national goals, world stability, and domestic as well as international prosperity and, ultimately, whether our resources could be better used elsewhere.

Throughout the review process and beyond, Canada's commitment to Canadian forces in Europe and NATO generally retained a central place in Canadian defence planning, albeit at times placed third after the protection of national sovereignty and the defence of North America. While efforts continued to revive the political and economic importance of NATO, in addition to military cooperation, it was recognized that NATO fora were a place where Canada could discuss security policy issues as a relative equal.

4. Generally, while recognizing the need for NATO per se and NATO (and, more broadly, western) force projections into the Middle East and Asia/South Asia, we also recognized that it was not possible for the West to provide sufficient land forces to deal with possible confrontations outside of the North Atlantic arena. Our own Mobile Command was in line with the American Rapid Deployment Force and similar forces of our allies, making it clear that we recongnized the potential of a security threat in far-off places to be such that we would be prepared to commit forces. However, it was, and still remains, less than clear--and not only in terms of Canadian forces, but more dramatically American, British, and French contingents--what exactly are the criteria for deployment and employment. Each force, of course, is part of the national defence capacity and, as such, acts in accordance with the policies and under the directives of respective national governments. However, the arenas of action are such that deployment is increasingly likely to affect other countries and interests.

Canadian participation in RIMPAC was another indicator of our awareness of the out-of-area component of our security interests. Indeed, in that arena, former senior Canadian policy makers were known to have mused about turning ANZUS into CANZUS. Most recently, in the proposed plans for major capital procurements in light of the new Defence White Paper entitled "Challenge and Commitment", the proposed purchase of a fleet of nuclear-powered submarines has been viewed by some as a clear indicator not only of Canada's renewed commitment to burden-sharing in the context of both NATO and the northern sector of the Western hemisphere, but also more generally as an operational acknowledgement of the need to be able to project force in those arenas critical to one's defence and the broader western security community; i.e., the three oceans and, especially, the Pacific, a crucial out-of-NATO-area basin.

## III. Canada and NATO Out-of-Area

1. Byers, in his Adelphi Paper #214 entitled "Canadian Security and Defence: the Legacy and the Challenges", provides an insightful critique of the history of Canadian defence policy and activities, especially in context of Canada's failure to provide a guiding security policy. I would like to take that one step further by addressing, albeit briefly, the question of what we mean be "security". The data eloquently state what, by now, we all consider almost trite and banal: the complex interdependencies both within the

community of advanced industrial states and, in a somewhat different way, between that community and the rest of the world. Whether discussing information, trade and service flows, financial movements, the internationalization of labour and capital, world product mandates, or strategic minerals it is increasingly evident that both sensitivities and vulnerabilities exist and are dependent on externalities. While defence might be most usefully retained as the concept linked most directly to sovereignty and territorial control, the permeability of territory now makes security something much broader yet no less immediate or vital. Data on Canada's foreign direct investment, on trade, service, and financial flows, on immigration, on R&D, on intake and outflow of primary goods and raw materials, on formal as well as informal bilateral arrangements, etc. all confirm what has been known for along time: that Canada is a highly penetrated and permeable country. However, it also is true that it is far less vulnerable or even sensitive to perturbations in the international community than many other OECD members. Yet, in terms of a moderate definition of security interests, one cannot avoid the conclusion that security for Canada, as for much of the world's countries, extends far beyond borders and, indeed, beyond unilateral capabilities. Given the experiences of the last two decades, and most recently the various oil-related shocks, currency fluctuations, and debt servicing situations, can we afford not to force a critical reassessment about what it means for each and every member of the OECD to think through the **security problematique** and, in particular, the relationship between NATO and non-NATO members of the OECD who share this security environment?

2. Elsewhere a Canadian colleague and I have argued that, primarily as a result of the emergence of complex global interdependence, the absolute stakes involved in preventing war in the nuclear age, and the changing international hierarchy from one of bipolar dominant to a more multipolar, diffuse international system there are a group of countries--of which Canada and Italy are but two--who are neither superpowers nor great powers, but nor are they simply the conventionally-labelled middle powers identified in the 1950s and 1960s. Rather, these countries, typified by the Summit Seven minus the United States but not limited to them, have been called "principal powers", and are identified by the following:

> i. Principal powers are the states in the international hierarchy that stand at the top of the international status ranking, collectively possessing decisive capability and differentiated from lower-ranking powers by both objective and subjective criteria. To be one you must be an elephant, of a size that leaves most elephants and lesser beings in little doubt.
>
> ii. Secondly, principal powers act as principals in their international activities and associations, rather than solely as agents for other states or as mediators among principals themselves. In short, they must behave as most elephants most often do.

iii. And thirdly, they have a principal role in establishing, specifying, and enforcing international order. They define how the jungle shall be run and thereby replace the law of the jungle with rules of a more civilized kind. They do so by collectively substituting for states that have, by themselves, exercised hegemony over the system and have thus provided the order that hegemony brings. They thus only come into existence in the troubled interlude after that hegemony has vanished and before the next one comes along.

I do not wish to focus on the interesting--and undoubtedly debateable--points of what defines a principal power, which countries belong in that class, and more controversial, whether the United States is, indeed, a declining if not eclipsed hegemon of the West. For now, let me assume that I can convince you of all three points. If I am correct, what are the implications for Canada, by extension other principal powers and the western security community? In particular, what does this mean for the question of NATO in the context of western security interests and out-of-area problems?

3. First, while a more complex and diffuse international system provides capable actors with more degrees of freedom (opportunities, choice), it also introduces more weak links in the chains that bind actors with common interests. In an increasingly competitive world, where non-military competition may be as threatening to some in some ways, the instruments for "defence" are neither as obvious nor as discrete, and the coalitions of support (i.e., who is the enemy?) neither as clear nor as indivisible. Canada has been schizophrenic in this arena. We have proclaimed a Third Option but never aggressively pursued it. We have argued the need for a revamped GATT to ensure an orderly and, hopefully, equitable global trading system but then engaged in a range of bilateral pursuits seemingly inconsistent with that policy. We have acknowledged the primacy of the nuclear security dilemma, but have been relatively silent on creating multilateral initiatives and have oscillated over the years regarding our defence commitments. We have underscored the importance of the United Nations and have developed a real and deserved reputation for active engagement and excellence in our position therein, but have pursued national policies at times inconsistent with declaratory UN policy.

4. Second, a system in which the hegemon is decreasingly capable of pursuing its interests globally without concern over international or domestic repercussions, is a system requiring a redefinition of the calculus of responsibilities, obligations, and objectives, and a recalibration of the instruments most appropriate for the tasks ahead. And this is still further exacerbated by the extent to which either declaratory policy or actual unilateral behaviour by this declining or eclipsed hegemon is seen to conflict with policies or interests of allies or to be counterproductive to the wider western security agenda. It has been difficult for Canadians -- perhaps because we are so close in so many ways to the United States -- to see these changes, although the evolving presence of the Asians in the welfare of the Canadian economy, Japan's increasingly active role in the multilateral system, American activities in our own hemisphere, etc. have begun to challenge our myopia. And it may be that part of our difficulty lies with the fact that the changes others have begun to explore are those that have been

a part of the Canadian tradition and thus are not viewed as new or novel. For instance, at the Thirtieth Annual Assembly of the Atlantic Treaty Association held in Toronto in 1984, Canada's position was highlighted in the context of the 1956 Report of the Committee on Non-Military Co-operation in NATO -- the report of the three wise men -- when the Canadian representative stated: "I would like to draw upon one of its principal conclusions. If there is to be vitality and growth in the concept of the Atlantic community, the relations between members of NATO must rest on a sound basis of confidence and understanding. Without this, there cannot be constructive or solid political co-operation. It is easy to profess devotion to the principle of consultation in NATO. It is often difficult to convert this profession into practice." He went on to focus on issues of consensus within the Alliance, the necessity to discuss all essential issues, the concern over national consensus at home, and the problems of equitable sharing of both decision-making responsibility and ensuing burdens. These were merely diplomatic niceties, however genuinely espoused by their earlier proponents, when the United States ruled the West. Today, they are real calls for action, and only principal powers (a term, by the way, also used by the four authors of Western Security published in 1981) have the capacity to respond.

5. This is not necessarily a welcome situation. For those in this principal power ranking -- Canada, Italy, FRG, France, UK, Japan, and perhaps soon Australia, and one or more of the major "southern" countries -- it places additional demands and burdens, none coming without substantial real costs. In a world highlighted by complex interdependence, for a penetrated and permeable country like Canada, a "pax Americana" was, with all its problems, rather comforting because it almost guaranteed the evolution of a global system of economic and political benefit to Canada without the burdens imposed by the uncertainties and worries of a system not led by a hegemon as dominant as post-World War II United States. But if we are, indeed, into a period of transition, further complicated by the US-USSR process unfolding before us, out-of-area problems will, in my estimation, become more important for the principal partners within NATO, but not for them alone. This view of the world necessitates more active collaboration and co-ordination with other OECD principal powers, as well as with parties of "common concern" throughout the world. In this sense, it seems to me that, though I don't feel comfortable using the term, we may be moving into a form of "revised containment" wherein the interests of the greater western security community (and not limited to nor necessarily even focussed on Soviet interests in the area) are of necessity tied to the interests of particular countries-- especially regional hegemons -- and thereby require co-ordinated out-of-area commitments

## IV. Some Tentative Conclusions

1. I do not think that this necessarily means an extension of the NATO mandate. I believe it would be a mistake to dilute that too readily. Rather, I expect that given the increasing emphasis on burden-sharing (already noted by President-elect Bush as a critical component of his early security agenda and, I would argue, another indication of the relative decline of American dominance), principal powers who also are in NATO will have to join with

principal powers and the United States outside of NATO in forming a more regularized and co-ordinated policy on these so-called out-of-area concerns. The ability of continued ad hoc arrangements to work reasonably well (as in the Gulf) is, I believe, predicated on the unrealistic assumption of a continued American willingness to commit scarce resources and to lead in areas of uncertainty and of mixed cost-benefit calculations.

2. Does this mean an OECD military alliance not unlike NATO? I think that unlikely, given the kinds of out-of-area security related threats, the geographic expanse, the political sensitivities of these non-Atlantic countries, and the financial and political costs of maintaining sufficient OECD-Alliance forces throughout the areas without weakening NATO. Rather, I expect that the only viable means is through a combination of the following:

i. a joint NATO-OECD task force to draw up a "common security" document, including the specification of criteria which would determine threat level and type of response;

ii. an active process of consultation between this task force and leaders of both "friendly" but also significant countries within each region in order both to inform them of our concerns and to enlist their advice on and support for policies which would mutually enhance their own defence and security interests;

iii. an active involvement of the UN machinery in order to explore the eventuality of establishing a UN-type of peacekeeping, peacemaking, crisis prevention and de-escalation, and conflict management regime (procedures, norms, rules, and instruments/forces) based on the NATO-OECD task force evaluations or "early warnings" re areas of possible or probable confrontation which would compromise western security interests such that some intervention would be deemed necessary;

iv. depending upon the outcome of the current transition of the US-USSR relationship, especially regarding regional conflict and security, this process likely would benefit from Soviet involvement, although the ways and means remain, in my mind, unclear.

I do not think that NATO, or indeed the broader western community, can continue to afford the luxury of relatively unconstrained out-of-area activity based solely on informal consultation, promises of not drawing down on NATO forces, assumptions that one's actions do not affect the interests of allies, and expectations of American leadership.

## ABSTRACT

# Canada and Defence Industrial Cooperation: The Policies and role of a Principal Power

Michael Slack

In recent years the Canadian government and more specifically the Department of National Defence has reemphasized the importance of defence industrial production and increased defence industrial cooperation. These changes are best exemplified by renewed support for defence industrial preparedness, increased cooperation with the United States, and a continuing strong interest in NATO cooperative programmes. In large part this change in government policy (outlook) can be viewed, at least in military terms, as a direct consequence of changes in NATO strategy.

The emergence of rough parity on the strategic nuclear level over the last two decades, combined with the recent elimination of Intermediate-range Nuclear Forces has obliged the rethinking of Western conventional military policy. The apparent implausibility of nuclear retaliatory threats for extended deterrence purposes has led many Western strategic analysts to reemphasize the importance of conventional forces for strengthening deterrence and, should deterrence fail, the strategy of flexible response. The recent movement in United States and NATO military policy towards a renewed emphasis on conventional forces has, in turn, regenerated an explicit requirement for conventional sustainability. This policy development has produced certain requirements for defence industrial production. Given the high costs associated with the research, development and production of modern weapon systems an important policy consideration for countries such as Canada is the extent to which defence acquisition and production can, or should, be domestically oriented or based on cooperative policies and programs.

The paper will be divided into two sections. The first section of the paper will be devoted to an examination of Canada's current domestic production capabilities and policies. Included in this section will be a discussion of Canada's unique bilateral defence production sharing arrangements with the United States. The second part of the paper will explore Canada's current role in NATO cooperative programs. The intent in both sections will be to (1) highlight the problems and prospects for Canadian policy and (2) assess the role that countries such as Canada can play in the area of defence industrial cooperation.

## ABSTRACT

# CANADA, ITALY AND THE INTERNATIONAL ECONOMY

DAVID LEYTON-BROWN

Canada and Italy participate in comparable ways in the international economy. Both are members of the Economic Summit Seven, whose heads of government meet annually to constitute the highest level institution for macroeconomnic cooperation in the industrialized world (though both are subsequent additions to the original Five). Both are active supporters of, and participants in, the multilateral trading system embodied in the General Agreement on Tariffs and Trade, but both are (or in Canada's case are about to become) members of a continental trading bloc.

This paper will focus on Canada's objectives and policies in these two issue areas, in the hope that Italian participants will be able to explore similarities and dissimilarities to the Italian experience.

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ABSTRACT

"ECONOMIC SECURITY" IN NORTH-SOUTH PERSPECTIVE

PRESENTATION BY BERNARD WOOD, PREPARED FOR IIIA/CISS WORKSHOP
ROME, NOVEMBER 24, 1988

As a contribution to this workshop's exploratory approach to the multifacetted security challenges of the latter 20th centry, this paper will begin by testing the realism, rigor, and usefulness of an idea such as "economic security".

Particularly from the perspective of most developing countries, it can be argued, the external and internal economic constraints have a critical bearing on their power, autonomy, and vulnerability in every sense. Thus, as a number of examples will illustrate, the concept of economic insecurity by even the most traditional definitions of international security is compelling, especially as it applies to these countries.

On the other hand, the means and techniques for attempting to reduce this insecurity are poorly understood and even more poorly developed. The paper will canvas and assess the range of their experience of security disruptions in the economic field, their threat perceptions, and the range and track record of economic and political measures used to respond. Complicating factors need to be integrated into the analysis such as the frequent inadequacy of national integration (on ethnic, regional and class lines), the aggressive penetration of economic influence and rising expectations, the impacts of major expenditures and roles for defence and internal security forces, and the intense pressures for rapid growth, even at the cost of environmental and resource sustainability.

Finally, to reverse the perspective, the paper examines the wider security stakes and options for the North in these relationships. Based on an examination of past North-South economic conflict and its outcomes, as well as present and projected stakes, the paper re-assesses the range of options for the North, as well as the relevant linkages between North-South and East-West relations.

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# "Security Reconsidered: Canada, NATO Out-of-Area, and the OECD Connection"

**Abstract of a presentation to the YCISS/IAI Workshop**
**Rome, 24-25 November 1988**

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This paper focusses on one aspect of the changing global security environment. It is argued that, to the extent the international system has become less bipolar and increasingly diffuse, there are ever more countries whose security interests lie well beyond their own borders and the activities of contiguous states. Many members of NATO also are in the top tier of the OECD states and, as is true of all such leading advanced industrial countries, their interests and involvements are worldwide, complex, and interdependent. This creates, at one and the same time, both enormous capability but also substantial sensitivity if not vulnerability to intervention. In otherwords, just as many are now arguing that the East-West strategic environment is in a stage of transition and uncertainty, so too is the reality of an easily identifiable and cohesive western security environment.

The member states of NATO not only have in common the defence of the geopolitical arena identified in the Alliance treaty, but in many cases have critical interests which intersect and at times conflict each with the other well outside the NATO arena. Furthermore, these "out-of-area" concerns often coincide with the interests of non-NATO OECD states. Thus, it is increasingly possible that critical security problems may arise for both NATO members and non-NATO OECD countries which compel states to act but for which no formal mechanism exists for co-operative action. Further, it also is likely that occasions will arise that OECD countries find themselves on different sides of an out-of-area security interest.

This paper identifies and assesses, initially through an overview of Canada's global activities, the complex set of Canadian political, diplomatic, and operational security interests which exist outside the formal NATO arena. This then is placed in the context of the Alliance and of the OECD, with an effort to evaluate actual and potential western out-of-area security interests and the extent to which these may create further "transitions and uncertainties" in the international security environment. Finally, some attention is given to the question of what alternatives, if any, the OECD community and NATO in particular have to continued ad hoc consultation and co-operation in pursuing out-of-area security interests when threatened.