of great international change after a long period of confrontation. As relations between adversaries are ameliorated, those not directly involved tend to worry that their own interests are somehow subordinate to new relationships.

But the United States will never compromise the security of Europe or the interests of our allies. The best reassurance of our unity, however, lies not in verbal pledges but in the knowledge of agreed purposes and common policies. For almost a decade the Alliance has debated questions of defense and detente—some urging one course, others a different priority. Now the debates should end. We must close ranks and chart our course together for the decade ahead. There is an obvious agenda for Alliance action.

—The United States supports European unity, as we always have. But now we need to define together the basis of cooperative economic relations between the United States and the European Community in this decade. To do this, we need a new affirmation of our common goals, to give political direction to our economic negotiations and promote cooperative solutions.

—The United States will maintain its forces in Europe. We will not withdraw unilaterally. But together we need to agree on our common defense requirements and on the contributions each ally and the Alliance collectively must make to preserve our security in new conditions.

—We need a concerted strategy for dealing with security and diplomatic issues of common concern, in whatever forum these are pursued.

—In the 1970's we face new common issues, such as ensuring the supply of energy resources for industrialized nations. This must be a new area of our cooperation.

1973 is the year of Europe because of the historic opportunities we face together. The United States, Canada, and Western Europe have a decisive contribution to make to a healthy world economy and to a new peaceful international order. These are new creative tasks for our partnership.

The Outlook

In 1972, the face of world politics changed dramatically. But one constant factor in this changing pattern has been the close relationship among the Atlantic allies. It has been true, however, that as the relaxation of East-West tensions became more pronounced, some of our allies questioned whether the United States would remain committed to Europe or would instead pursue a new balance of power in which the older alignments would be diluted and distinctions between allies and adversaries would disappear. Apprehensions may be inevitable in a period...
JAPAN

Today we see a new Japan. Her emergence is one of the most striking new features of the international landscape of the 1970's and one of the most dramatic transformations since the period following the Second World War. To speak of Japan's phenomenal economic performance has long been commonplace. Less noted, more recent—and of fundamental importance—is the impact of this power on the international political order. This is a challenge for Japanese policy, for American policy, and for the alliance that binds us together.

- In the economic dimension, Japan is a superpower. By 1968 she was the world's third greatest industrial nation, and she may become the second greatest within a decade's time. Her rate of real growth annually in the 1960's was 11.3 percent, the fastest of any industrial nation. She impacts upon the world as a trading power of enormous strength: over the period 1968-1971 her exports grew faster than 20 percent per year. In 1971, she ran an extraordinary trade surplus of $4.1 billion with the United States, $1 billion with the European Community, and $9 billion with the world as a whole. A chronic imbalance of such a scale could not fail to have implications for the stability and equity of the international economic system.

- In her foreign economic policy, while not in her diplomacy and security policy, Japan began as early as the mid-1950's to move out independently. Her economic assistance to the developing world is second only to that of the United States, and more than a third of it is in the form of credits tied to Japanese exports. Japan has long had trade relations with the major Communist powers. Unofficial Japanese trading relationships existed with the People's Republic of China as early as 1952, and Japan had an unofficial trade office in Peking by 1964; by 1971, when American trade with the People's Republic was still negligible, Sino-Japanese trade was $900 million. Japan signed a Treaty of Commerce and Navigation with the Soviet Union in 1957, which has been the basis for a series of subsequent trade agreements; in recent years they have begun cooperation in the development of Siberian resources—an economic relationship of great potential. While the United States held back from East-West trade, Japan staked out for herself a role in bridging the gap between East and West with her economic ties.

- It was inevitable that these economic relations would develop into political ties, particularly in the new atmosphere of detente. Japan has moved actively in this direction in the past two years. Prime Minister Tanaka's historic visit to Peking in September 1972 led to the establishment of full diplomatic relations, again putting formal Sino-Japanese ties at a more advanced stage than Sino-American relations, while she still maintains her extensive economic ties with Taiwan. Japan and the Soviet Union reopened discussions in 1972 of a possible final peace treaty and territorial settlement, in the interest of normalization of their political relations. Prime Minister Tanaka will shortly match his visit to Peking with a visit to Moscow. Japan has now moved out in many directions into the arena of complex geopolitical relationships among the major powers.

- Japan has accelerated and broadened her political involvement in Asia in particular. She extended recognition to Mongolia and Bangladesh in advance of the United States, as did a number of other nations. She has taken a special interest in the security and diplomacy of the Korean peninsula, and in postwar reconstruction in Indochina, opening in the process a dialogue with North Vietnam. She takes a greater part today in regional institutions. Asia is the focus of her economic assistance to the developing world. It is an active diplomacy of Asian involvement, after a generation.

- Japan has now come into increasing interchange with the world beyond Asia and the Pacific, both as a participant and as a competitor. The communiques of my summit meetings with Prime Ministers Sato and Tanaka reflected our review of global problems, including arms control and East-West diplomacy. Japan's economic expansion has brought her increasingly into the markets of Europe and Latin America. Her political contacts with Europe are steadily expanding; in September, for example, Prime Minister Heath became the first British Prime Minister to visit Japan, and Prime Minister Tanaka plans a return visit this fall. Japan's dependence on Middle East oil has given her a special interest in the energy problem. Her participation in United Nations diplomacy has grown more active, and she has shown interest in claiming a permanent seat on the Security Council as a major power.

- In the security field, Japan has for years relied on her Treaty with the United States and on the American nuclear deterrent, which freed resources and energies that would otherwise have been required for defense. But she has steadily improved her own conven-
tional defenses, emphasizing modernization rather than size, upgrading her forces in firepower, mobility, and anti-submarine warfare and air defense capability. Her Fourth Defense Plan, for 1972-1976, doubles the expenditure of her Third Plan. This still represents less than one percent annually of her Gross National Product, while this Gross National Product has been growing at over ten percent a year. With the reversion of Okinawa, Japanese forces have now moved southward to take over its defense. These are important steps toward self-reliance and improved capacity for conventional defense of all Japanese territory.

This was an inevitable evolution.

There was no way that Japan and Japan’s role in the world could go unaffected by the profound transformation of the international order over the last 25 years. All our alliances have been affected. The recovery and rejuvenation of allies has eroded the rigid bipolar system and given all our allies greater room for independent action. The easing of the Cold War military confrontation has brought other aspects of power—economic, in particular—to the forefront of the international political stage. U.S. military protection no longer suffices as the principal rationale for close partnership and cooperation. In every allied country, leadership has begun to pass to a new generation eager to assert a new national identity at home and abroad.

Japan’s emergence is a political fact of enormous importance. Japan is now a major factor in the international system, and her conduct is a major determinant of its stability.

As I have indicated in each of my previous Foreign Policy Reports, I have been concerned since the beginning of this Administration that our alliance relations with Japan had to keep in step with these new conditions. We are faced with new responsibilities toward each other and toward the world. We are challenged to respond to this evolution creatively and together, to keep our alliance on a firm basis in a new era.

For the U.S.-Japanese alliance remains central to the foreign policies of both countries. We are two major powers of the free world, interdependent to an extraordinary degree for our prosperity and our security. The United States therefore places the highest possible value upon this partnership, as it has for more than two decades.

In this year of new commitment to strengthening our ties with Western Europe, I am determined no less to strengthen our alliance with Japan.

Our Alliance and Its Evolution

In 1969, when I came into office, the challenge of new conditions presented itself concretely in the issue of Okinawa. For 25 years since the war, the United States had retained the administrative rights to Okinawa to protect military installations there which were, and still are, vitally important to the defense of East and Southeast Asia. By the mid-1960’s, however, the Japanese had come to feel strongly that our continued administration of Okinawa was inconsistent with Japan’s national dignity and sovereignty. We risked a crisis in our relations if we did not respond.

Therefore, I made the basic choice: our long-term relationship with Japan was clearly our fundamental interest. Accordingly, at my summit meeting with Prime Minister Sato in November 1969, we announced our agreement on the reversion of Okinawa to Japanese administration by 1972. The United States could continue to use such facilities there as the two countries agreed were required for mutual security, but subject to the same terms as facilities elsewhere in Japan. At the same time, in the communique of that summit meeting, Japan and the United States declared more explicitly than ever before our joint commitment to active cooperation in diplomacy and security in the Far East, and in economic relations bilaterally and worldwide.

Thus in 1969 the United States acknowledged the new Japan. Our two governments addressed an outstanding problem, treated it as a common problem, and solved it. We reaffirmed our essential unity of purpose. In 1970, when the Treaty of Mutual Cooperation and Security became technically subject to review, neither government raised any doubt about its continuing validity and importance.

But the adjustment we made in 1969 proved to be only the beginning of a complex process of transition in our relations.

For twenty years we had achieved common policies in the areas of East-West diplomacy, economics, and mutual security with relative ease. It is clear today that this was in part the product of unique conditions in the postwar period that are no longer with us. An adjustment in all our alliance relationships was inevitable. Today, the harmony of our policies is far from automatic. We and all our allies have a heavy responsibility to proceed from an understanding of both the positive and the negative possibilities of our independent action.
It was also inevitable that this transition into a new political environment would pose a particular challenge for Japan.

The character of our alliance had been shaped in the period of Japanese dependence. Defeat in war had shattered her economy, political system, and national confidence. Occupation, the Cold War, and Japan’s own renunciation of offensive military capability put her in the position of almost total reliance on our military protection. Japan accepted American leadership and only gradually came to take part in international diplomacy.

This was not an uncomfortable arrangement then for either the United States or Japan. The United States in the postwar period assumed the role and bore the responsibilities which our preponderant power gave us. We acted as the protector and champion of a network of alliances locked in rigid confrontation with the Communist world—as the leader, senior partner, and chief actor. Japan found this arrangement consistent with her own objectives—not only in the conditions of her postwar weakness but even for a time as she recovered her political and economic vitality. By geography and history, unlike most of our European allies, Japan was a late-comer to global multilateral diplomacy. Even in the twentieth century, her focus has been in the Pacific. The conditions she faced after World War II inevitably caused her to gear her policy and policy making structure to the needs of economic recovery and expansion.

By the time I came into office, an alliance relationship of this character—which was suited to postwar conditions and had served us both well—needed adjustment.

Japan’s resurgence from a recipient of American aid into a major economic power and competitor was bound to affect the external political framework which had helped make it possible. In her dealings with the United States, in particular, Japan no longer needed or could afford an almost exclusive concentration on her economic advancement or a habit of acting as a junior partner. She still enjoyed the special advantage that her reliance on the United States for her security freed resources for her economic expansion. The political relationships which continued to safeguard her would require greater reciprocity in her economic relations.

Moreover, Japan was no longer just a regional Pacific power dependent on the United States in the broader diplomatic field. Europe, Asia, North and South America, and Africa were now part of one vast arena of multilateral diplomacy in which Japan was a major factor. Japan was already acting autonomously in an expanding sphere. Her power now brought her new responsibilities. The weight of her economic involvement in the world—her stake in the free world’s economic system, her extensive aid programs, and her growing economic ties with Communist powers—would require that she make her decisions on broader policy grounds than economic calculations. We and Japan, as allies, would have to face up to the problem of keeping our independent policies directed at common objectives.

These are the fundamental developments I have sought to address over the last four years. I have sought to adapt our partnership to these transformed conditions of greater equality and multipolar diplomacy. My three meetings with Japanese Prime Ministers, my decision on Okinawa, our discussions of new cooperation in the Far East and in bilateral and multilateral economic areas, and our policies toward China—were all part of this.

The intimacy of the postwar U.S.-Japanese alliance, however, inevitably gave Japan a special sensitivity to the evolution of United States foreign policy. We thus found the paradox that Japan seemed to feel that her reliance on us should limit change or initiatives in American policy, even while she was actively seeking new directions in many dimensions of her own policy. But our abandoning our paternalistic style of alliance leadership meant not that we were casting Japan or any ally adrift, but that we took our allies more seriously, as full partners. Our recognizing the new multipolarity of the world meant not a loss of interest in our alliances, but the contrary—an acknowledgement of the new importance of our allies. American initiatives, such as in China policy or economic policy, were not directed against Japan, but were taken in a common interest or in a much broader context—and in some cases in response to Japanese policies.

The underlying basis of our unity endured. The very centrality of the alliance in Japanese policy was at the heart of the problem. But Japan had to face the implications of her new independence and strength just as the United States was seeking to do. And until this psychological adjustment was fully made by both sides, anomalies in our relations were bound to persist.

This is the background to the events of the past two years and the current public issues facing the U.S.-Japanese alliance.

The Issues on Our Common Agenda

The Economic Dimension. The most urgent issue in U.S.-Japanese relations today is economic—the enormous imbalance in our bilateral trade. We must reduce this imbalance to manageable size in the earliest possible timeframe.
As Prime Minister Tanaka has recognized, this is not merely an American problem; it is also a Japanese problem. This is not only because persistent disputes over these economic issues threaten to disrupt the political relations that hold our alliance together; the imbalance is a threat to a stable international system in which Japan herself has a major stake. In 1972, Japan’s trade was in surplus with all the major industrial nations of the world. As long as the United States remains the largest single factor in international trade and the dollar is still the principal factor in the monetary structure, the disequilibrium of the American position, in particular, is a chronic problem of the world system. The United States therefore seeks cooperative solutions, bilaterally and multilaterally, to build a new stable and open system of world monetary and trade relations.

The responsibility that falls on Japan as the free world nation with the strongest trading position is necessarily heavy.

The challenge to leadership on all sides is to give firm political direction to our economic relations because of the broader objectives that are at stake. Organizationally, on all sides, there is a tendency for actions to be taken or policies to be established from the viewpoint of a purely economic national interest or under pressure from particular domestic economic interests. This has only resulted in destabilizing both our economic and our political relations, and we can no longer afford it.

The U.S.-Japanese bilateral economic relationship is at the heart of the issue. It is extraordinary in its scale, importance, and interdependence. The Gross National Product of the United States and Japan together is 40 percent of the total Gross National Product of the world. Trade between us totalled $12.5 billion in 1972. Japan is our most important trading partner in the world aside from Canada. Our economic policies, internal and global, necessarily affect each other bilaterally to a profound degree.

On August 15, 1971, the United States took a number of unilateral economic steps which inevitably had a particular impact on Japan. They were emergency measures, forced upon us by a monetary crisis; their focus was on putting our own house in order and in setting the stage for international reform. The measures which applied to our external relations were nondiscriminatory, affecting all our trading partners. The resolution of the crisis could only be achieved multilaterally, by cooperation among all the major economic nations, as was accomplished at the Smithsonian in December 1971. Coming a month after the China announcement, however, these measures intensified the fears of many on both sides of the Pacific that our relations with Japan were in danger. Unlike the case of China policy, where the divergence of interest between the United States and Japan was largely illusory, the strain in our economic relations was clearly real. It was a deep-seated and growing difficulty to which the United States had long been calling attention. The economic events of August 1971 had the salutary effect of finally bringing attention to this problem and bringing political urgency to its solution.

Japan’s trade surplus with the United States reflects to a certain extent the competitiveness and productivity of the Japanese economy, as well as the slowness of American exporters to exploit potential markets in Japan. But to a significant degree it has been promoted by anachronistic exchange rates and an elaborate Japanese system of government assistance, complex pricing policies, and restrictions on imports and foreign investment in Japan—vestiges of an earlier period when Japan was still struggling to become competitive with the West. Japan’s interest in protecting weaker sectors in her home market is now no different from that of every other nation. The requirement today is a fair system of mutual access to expand trade in a balanced way in both directions. Continued cooperation in dealing with this problem positively is crucial to the ability to fend off growing protectionist pressures and to ensure that the United States is able to address the issues of international trade positively as well. This is a political imperative for both sides.

We believe we have made some progress in the past year.

In January 1972 we concluded an agreement moderating the growth of Japanese synthetic textile sales in the U.S. market, mitigating what had become a major irritant. Voluntary quota arrangements have been reached governing steel. Last July, in preparation for my summit meeting with Prime Minister Tanaka, high-level bilateral negotiations at Hakone, Japan, produced important measures of liberalization of access to the Japanese market and commitments to increase Japanese purchases of agricultural products, civil aircraft, uranium enrichment services, and military items from the United States. At our meeting in Hawaii, Prime Minister Tanaka committed his government to promote imports from the United States and to reduce the imbalance to a more manageable size. The Japanese Government has publicly pledged to reduce Japan’s global surplus in foreign trade and other current transactions to one percent of Japan’s Gross National Product in two or three years. A further step was taken at the end of April 1973 to liberalize restrictions on foreign investment in Japan.

Two major currency revaluations have raised the value of the yen by over 35 percent with respect to the dollar, and there are indications that these are beginning to have an effect on our trade. For the future there is interest on both sides of the Pacific in creating regular mechanisms of
monitoring and adjustment, to anticipate trade imbalances in particular sectors and head them off before they generate protectionist pressures and political crises. This is a constructive approach, and we should pursue it.

The United States can only place the highest importance on the carrying out of these policies.

The problem, of course, is an international one. The multilateral realignments of currencies in December 1971 and February 1973 were important steps toward a solution, and Japan’s participation in these was constructive and crucial. But the basic problem is structural, and the solution is a thoroughgoing multilateral reform of the system. Japan’s active contribution to this process is indispensable, because no system is achievable or workable unless the most powerful economic nations are engaged in it and help actively to make it work.

It is no accident that the U.S.-Japan Security Treaty commits our two nations to “seek to eliminate conflict in their international economic policies and . . . encourage economic collaboration between them.” Without conscious effort of political will, our economic disputes could tear the fabric of our alliance.

Japan’s New Diplomacy. As Japan today moves out in many directions over the terrain of multipolar diplomacy, it will be another test of statesmanship on both sides to ensure that our policies are not divergent. Japan’s foreign policy will continue to be shaped by her unique perspectives, purposes, and style. Japan has interests of her own, of which she herself will be the ultimate judge. Our foreign policies will not be identical or inevitably in step. What will preserve our alliance in the new era is not rigidity of policy but a continuing consciousness of the basic interest in stability which we have in common. We must work to maintain a consensus in our policies.

Our respective approaches toward China in 1972 reflected the opportunities and complexities we face, as allies, in the common endeavor of reducing tensions with adversaries.

Japan had for many years been developing economic and cultural contacts with the People’s Republic of China when the United States had virtually none. Geography, culture, history, and trade potential have always made China a powerful natural attraction for Japan. Some Japanese criticized the United States for the mutual isolation between the United States and the People’s Republic of China, and offered Japan as a natural bridge between the two countries. Today, Japan has full diplomatic relations with the People’s Republic, while the United States has not, and Japan’s trade with China continues to exceed our own by a wide margin.

I have never believed, however, that American and Japanese interests in our China policies were in conflict.

On July 15, 1971, when I announced my forthcoming visit to Peking, Japan—because of her special closeness to the United States—feared that our independent action foreshadowed a divergence or conflict with Japan’s interest, or a loss of American interest in the U.S.-Japanese alliance. It is obvious now that our China policy involved no inconsistency with our Japan policy. As I explained in last year’s Report, I made a conscious decision to preserve the secrecy of Dr. Kissinger’s exploratory trip to Peking until its outcome was clear. It was then announced immediately, and the announcement was followed up by a process of intensive substantive consultation with Japan, culminating in my meeting with Prime Minister Sato in San Clemente in January 1972, in advance of my Peking trip. Prime Minister Sato and I found that we were in substantial agreement on the major issues of peace in the Far East; the lessening of tensions in Asia was the goal both allies sought. There was no diminution of our overriding commitment to our alliance.

In Peking a month later, when the People’s Republic of China expressed its reservations about the U.S.-Japan Security Treaty and its fears of so-called Japanese “militarism,” the United States declared categorically in the Shanghai Communiqué itself that “the United States places the highest value on its friendly relations with Japan” and “will continue to develop the existing close bonds.”

At my summit meeting in Hawaii with Japan’s new Prime Minister, Kakuei Tanaka, we addressed our common diplomacy as well as our economic problems. We discussed global issues, Asian issues, and bilateral issues, and strongly reaffirmed the commitment of both countries to our political alliance. It was quickly evident that our China policies, while not identical, were still in basic harmony. Prime Minister Tanaka’s own historic journey to Peking was proof of this. Overcoming a legacy of bitterness and mistrust far deeper than that between the United States and the People’s Republic of China, these two great Asian nations pledged themselves to the same goals as the Shanghai Communiqué, and went beyond it to the establishment of full diplomatic relations.

Thus, there is no inconsistency in principle between our alliance and the new hopeful prospects of relaxation of tension multilaterally. No third country need fear our alliance. Neither Japan nor the United States need fear that our unity precludes a broader community of normalized relations, or independent approaches.

In the years ahead, the kind of close consultation between the United States and Japan which accompanied our respective Peking Summits
in 1972 will be critically important to all our diplomatic endeavors. More than our alliance is at stake. Japan has always been conscious of the external global framework within which she was pursuing her own objectives. What is new in the 1970's is her sharing in increased responsibility for it. This responsibility is now implied inescapably in her economic power and her engagement in many directions in global diplomacy.

The complexity of today's geopolitical environment, even in the Asian context alone, is a challenge to a nation of Japan's energy and national spirit undertaking a more active political role. Japan now has the obligations of a major power—restraint, reciprocity, reliability, and sensitivity to her overriding interest in a stable pattern of global relationships.

Today's multilateralism does not diminish the importance of the U.S.-Japanese alliance. On the contrary, our alliance, which has ensured stability in Asia for 20 years, still does, and serves an essential mutual interest in the new conditions. Secured by her alliance with the United States, Japan can engage herself economically and diplomatically in many directions independently, without fearing for her security or being feared by others. It provides a stable framework for the evolution of Japanese policy. This is a general interest.

The U.S.-Japanese alliance in the new era is thus presented with the same challenge as the Atlantic Alliance. We cannot conduct our individual policies on the basis of self-interest alone, taking our alliance for granted. We have an obligation not to allow our short-term policies to jeopardize our long-term unity, or to allow competitive objectives to threaten the common goals of our political association.

Challenges for the Future

Mature countries do not expect to avoid disputes or conflicts of interest. A mature alliance relationship, however, means facing up to them on the basis of mutuality. It means seriously addressing the underlying causes, not the superficial public events. We are now moving in this direction. We must carry it forward.

This means certain obligations on both sides.

In the economic area, the most urgent and divisive area, we both have an obligation to address and solve the common problem of our trade imbalance. We have a responsibility to the international system to normalize the bilateral economic relationship that bulks so large in the international economy. We have an obligation to keep the specific commitments made to each other. We have an opportunity to explore positive approaches to averting clashes in the future. We have a responsibility to provide positive leadership in the urgent efforts at multilateral reform.

In both the political and the economic dimensions, we have an obligation as allies to pursue our individual objectives in ways that serve also our common purposes. Whether the issue be the worldwide energy problem, or economic or political relations with Communist countries, or the provision of resources to developing countries, there are competitive interests necessarily involved, but also an overriding collective interest in a stable global environment. It will require a conscious effort of political will not to make the key decisions according to short-term economic or political advantage. This is more than a problem of bureaucratic management; it is a test of statesmanship.

The United States will be sensitive to Japan's unique perspective on the world and Japan's special relationship with the United States. To this end, we have redoubled our efforts at consultation. This consultation is institutionalized at several levels and in several channels—through our able Ambassadors; through high-level political consultations such as Dr. Kissinger's three visits to Tokyo in 1972 and 1973; through meetings at the Foreign Minister level such as Mr. Ohira's discussions with Secretary Rogers in Washington in October; through regular Cabinet-level meetings of the Japan-U.S. Committee on Trade and Economic Affairs; and through the three meetings I have had with Japanese Prime Ministers since taking office and the fourth I expect to have this year.

This interchange has a symbolic value in reaffirming a political commitment and also a tangible value in giving it substance.

The same dedication to mutual confidence and close consultation on the part of Japan will be essential as she marks out her independent paths. The complexity of the new diplomacy puts a premium on our steadiness and reliability in all our relationships, particularly with each other.

Japan's foreign policy is for Japan to decide. Both her security and her economic interests, however, link her destiny firmly to that of the free world. I am confident that the political leaders on both sides of the Pacific are deeply conscious of the common interest that our alliance has served, and deeply committed to preserving it.
Since V-E Day in 1945, nearly every American killed in war has died in Asia. That fact alone compels our attention and our concern. But there are other vital facts as well which dictate that the vast, changing, throbbing world of Asia will figure importantly in our thoughts and policy calculations as far ahead as any of us can see. Asia is where half of mankind lives and works and dies. What happens to that half of the human race will have a profound impact on the other half. Asia is also that part of the world where developed and developing nations alike have achieved the greatest levels of economic growth in the past decade. That growing economic power is having a profound influence on the lives of the people involved, their neighbors, and the rest of the world.

The United States has been part of the Asian world since we became involved in the China trade in the early 19th Century, and especially after the Spanish-American War made the Philippines an American responsibility. But after the Pacific phase of World War II, our involvement in Asia deepened enormously. Through bilateral and multilateral arrangements, we became the guarantor of the security of many Asian nations—from Japan and Korea around the rim of Asia to Thailand and on southward to Australia and New Zealand. We also became the principal source of economic and military assistance for many countries in the region. It is against the background of this deep and broad involvement that Asia today has special meaning for most Americans.

But beyond this elaborate record, there are other overriding reasons for our present day concerns about Asia and its future. We continue to have treaty obligations to many Asian allies—promises to help as much as we can to preserve their independence and their right to live their own lives in peace.

That network of alliances takes on special meaning in light of Asia’s special significance on the world scene today. Asia, and particularly Northeast Asia, is the locus of interaction among four of the five great power centers in our world. China is the heartland of this vast region. Siberia and the Far Eastern territories of the Soviet Union spread across the north of Asia from China to the Arctic, from Europe to the Bering Strait. The islands of Japan form a 2,000-mile crescent just off the mainland, running from the frigid waters of the North Pacific to semi-tropical Okinawa. The fourth major power of the Pacific area is, of course, the United States. The ways in which these powers act and interact will, to a significant degree, shape the future and determine the stability of Asia. At the same time, issues and developments within Asia will play an important part in shaping overall relationships among the major powers.

Failure to achieve the kind of reconciliation toward which we have moved so far in the past year could prove a mortal blow to the structure of peace. That stark reality is what makes the political evolution of Asia critically important to us and to the world.

Asia: Area of Change

Last year I went to Peking, the first American President to visit the People’s Republic of China. That visit began the process of overcoming long years of antagonism, suspicion, and open rivalry. Only a few weeks ago, American prisoners of war and the last American troops returned from Vietnam, marking an end to our direct involvement in our longest and most misunderstood war. These developments remind us that change is the immutable law of international life.

Nowhere has the fact of change been more dramatically evident than in Asia over the past generation. Only 25 years ago, Japan was an occupied country and its people were only beginning to dig themselves out of the rubble of war and to rebuild a shattered society. Korea, too, was occupied but also divided at the 38th parallel where a new war was about to explode. China, the most populous nation on earth, was torn by a bloody civil war that would soon turn it into a Communist state. In the Philippines, the United States had carried out its pledge to grant full independence to a proud people. But elsewhere in Asia, colonialism had not yet run its course. The French were trying to restore their control over Indochina. The Dutch were contending with the forces of Indonesian revolution. Malaya was not yet fully independent, and British control over Burma had only just ended.

The scars and trauma of war were everywhere evident. Economies had been badly shattered. Hunger and hopelessness were widespread. A mood of revolution was palpable in the atmosphere of most Asian capitals.

Asia today is a very different region. Former colonial territories have long since achieved independence. Japan has revived to become the third industrial power in the world. Other countries have also enjoyed economic “miracles” of their own, smaller quantitatively than Japan’s to be sure, but hardly less impressive in terms of rates of growth. The Republic of Korea is a good example. After the Korean War, many forecasters were predicting that South Korea could survive for decades to
come only as a beneficiary of the international dole. But South Korea has proved the prophets wrong, achieving annual rates of economic growth of as much as ten percent, and becoming an important exporter of manufactured goods.

Despite international political fluctuations, the skill and energy of the people of Taiwan have produced remarkable increases in per capita income (more than 13 percent last year) and made Taiwan a leading trading nation. While simultaneously moving toward the goal of normal relations with Peking, the United States has maintained a policy of friendship for the 15 million people of Taiwan. We retain diplomatic ties, commitments under the Mutual Defense Treaty of 1954, and close economic contacts with them.

Thailand, despite the pressures of externally supported insurgency, has continued to make steady economic progress. It has also made an important contribution to regional economic development as well as to the security of the area. Malaysia and Singapore, with imagination and hard work, have raised living standards and maintained stable political systems. The Philippines have had a worldwide impact through their innovative role in introducing high-yield rice strains as part of the Green Revolution. Indonesia, Southeast Asia's most populous country, is forging ahead under able national leadership. Overall, the non-Communist nations of Asia have achieved a remarkable rate of economic growth averaging close to seven percent a year.

Change in Asia has not been confined to achieving independence and making economic progress. South and North Korea, for example, have begun a dialogue to explore the possibility of settling major differences and have agreed that the ultimate unification of their country must be reached by peaceful means. Only a decade ago, Malaysia and Indonesia were virtually at war; today they are cooperative partners in regional organizations.

Japan has also been engaged in difficult adjustments. A generation ago, there was deep suspicion and bitterness between Japan and Korea. Today, though past scars of a painful history have not entirely healed, the two countries have moved toward a closer and mutually beneficial relationship. Japan and the People's Republic of China had for some time been engaged in commercial and cultural exchanges. Last year they agreed to resume full diplomatic relations. Despite the lack of a formal peace treaty, Japan and the Soviet Union are discussing projects for cooperative development of Siberian natural resources and increasing trade. If successful, these steps could help promote better political and economic relations between them.

The most obvious area of unresolved antagonism in Asia is in Indochina—between North Vietnam and its local followers on the one hand, and the legal governments of South Vietnam, Laos, and Cambodia on the other. Ceasefire agreements were reached in January in Vietnam and in February in Laos. These were important and hopeful steps toward ending the conflict in Indochina. At this writing, some fighting continues. It is our deepest hope that this continuing violence will soon end and that lasting peace will be achieved.

The U.S. Response to Asia

When this Administration took office, we determined that a reordering of our relationships with Asia and with other parts of the world was needed. It seemed to many Americans, as it did to me, that our role was too dominant, our presence too pervasive in the changed circumstances of the 1970's. It was time for others—especially those who had achieved new strength and prosperity—to do more for themselves and for others. The sacrifices of Vietnam and the internal strains it had created played an important part in shaping this outlook. Another determinant was the continuing deficit in our balance of payments and the pressures this put on the dollar and our economic health. These and other factors were even pushing some Americans into a mood of growing isolationism.

We recognized this as the gravest kind of threat. Heedless American abdication of its responsibilities to the world would destroy the global balance and the fabric of peace we had worked so hard and long to develop. Those who relied on us to help assure their security would be gravely concerned. Adversaries who had shown a willingness to reconcile long-standing differences would promptly revise their calculations and alter their actions. It was a prescription for chaos.

And so we charted our course between over-extension and withdrawal. We would continue to play a major and active role in world affairs, but we would ask our allies to draw increasingly on their new strength and on their own determination to be more self-reliant. The immediate context for this definition of policy was the defense of Asia. In July 1969, I outlined at Guam the main elements of this new United States approach.

First, the United States will keep all of its treaty commitments. We will adjust the manner of our support for our allies to new conditions, and we will base our actions on a realistic assessment of our interests. But as a matter of principle, and as a matter of preserving the stability
of Asia, we made it clear that the United States would never repudiate its pledged word nor betray an ally.

Second, we shall provide a shield if a nuclear power threatens the freedom of a nation allied with us or of a nation whose survival we consider vital to our security. Maintaining a balance of deterrence among the major powers is the most critical responsibility we bear. We have a special obligation to protect non-nuclear countries against nuclear blackmail and to minimize their incentive to develop nuclear weapons of their own. Only the United States can provide this shield in Asia.

Third, in cases involving other types of aggression we shall furnish military and economic assistance when requested in accordance with our treaty commitments. But we shall look to the nation directly threatened to assume the primary responsibility for providing the manpower for its defense. No nation, large or small, can have any reasonable security unless it is able to mobilize its people and resources for its own defense. Without that kind of national effort, external help cannot fill the vacuum of local indifference against any significant and prolonged threat. Moreover, without a determined local effort, it would be impossible to achieve the kind of broad political support needed in the United States to back another country in any sustained way.

The most important and most obvious application of this new approach to security cooperation was the Vietnamization program which enabled the South Vietnamese to assume the full burden of their own defense. But the Nixon Doctrine has been applied in other countries as well. Japan is gradually expanding its capability for conventional defense of its own territory within its constitutional prohibition against developing offensive forces. There has been expanded joint use of military base areas in Japan, and we are in the process of consolidating many of our base areas, particularly in and around metropolitan Tokyo.

In 1971, we reached an agreement with the Republic of Korea to assist in modernizing its armed forces. At the same time, we reduced U.S. forces stationed in Korea by one-third, bringing home more than 20,000 men. Reduced Congressional appropriations for military assistance in the past two years have forced a slowdown in this program.

The Philippines have become increasingly self-reliant. We have reduced the number of facilities we maintain there and reduced our forces by almost 13,000 men.

In all, in addition to the 550,000 men who have returned from Vietnam, nearly 100,000 American military personnel and dependents have come home from other parts of Asia during this Administration.

The economic dimension of the Nixon Doctrine recognizes that growing self-reliance and confidence must rest on a secure base of economic stability and growth. We are providing technical and financial resources to help friendly nations cope with problems of security and economic development without putting undue strain on their fragile economic base. Other industrial countries are increasing their share of such help. Multilateral participation has increased through cooperation among international developmental institutions, the Asian Development Bank, and the developed countries. The authority to extend generalized tariff preferences which I have requested in my new Trade Reform Bill, would help the developing countries of the region by increasing the potential for their exports and thus expanding their capacity to increase imports and speed their development.

This evolving process has brought us close to our goals—a more balanced American role in security arrangements in Asia, an increase in the capacity and willingness of our alliance partners to carry heavier burdens of responsibility for their own protection, and a more equitable sharing of the material and personal costs of security.

Translation of this doctrine into deeds has made it unmistakably clear to all that we are, and will remain, a Pacific power, maintaining balanced forces in the region. It has also made clear that, while adjusting our role in defensive alliances, we are supporting a compensating increase in the ability of Asians to defend themselves.

These decisions and actions had important consequences. I have no doubt that they influenced Hanoi's decision at long last to negotiate seriously and reach an agreement to end the fighting and return our prisoners. I am convinced that never would have happened if we had decided to end our involvement unilaterally, or if we had not helped South Vietnam to strengthen and improve its own military forces.

Our firmness in Southeast Asia and the maintenance of durable partnerships with our other Asian allies made it possible for us to reach out to other adversaries. And recognizing our determination to remain a power in the Pacific encouraged them to respond positively. The most dramatic example was, of course, my visit to Peking in February 1972 and my meetings there with the leaders of the People's Republic of China.

Looking Ahead

The rapidly changing face of Asia presents those who live there, and others who are deeply involved, with vast opportunities and challenges. The transition from war to peace, the movement from rigid confrontation to gradual accommodation, are heartening signs of what may lie ahead. But nothing is assured in this world, and the promise of progress will be fulfilled only by determination and positive actions on the part of all concerned.
If peace is to be made secure, if men and nations are to be able to continue to advance in reasonable safety, the largest responsibility must be borne by the major powers. It is of critical importance that they continue to move down the path of reconciliation, working together to overcome old bitterness, to settle differences amicably, and to broaden and deepen their efforts to develop new forms of cooperation. Similarly, they must act with the greatest restraint in dealing with each other and with smaller nations. The alternative is renewed confrontation which carries with it the threat of disaster—for those directly involved and for the world.

The smaller nations of Asia will also have to carry heavy responsibilities. The key ingredient of sustained economic progress will continue to be what they do for themselves. The key ingredient of their safety will continue to be the manpower and resources they are willing and able to invest. And their peace will depend heavily on their ability and readiness to overcome historic rivalries, old territorial disputes, and religious and political differences with their neighbors.

A new spirit of cooperation has developed among many of the countries of Asia in recent years. Thailand, Malaysia, Singapore, Indonesia, and the Philippines are joined in the Association of Southeast Asian Nations (ASEAN) to grapple with common concerns of many kinds. The Asian Development Bank and the Economic Commission for Asia and the Far East (ECAFE) have proved successful instruments for promoting economic progress, and have become outstanding examples of what developed and developing nations can accomplish by working together.

Economic progress and heightened cooperation among Asian nations cannot obscure the many problems facing those nations, or the several dangers shared by them and their friends, including the United States. We have noted many of the promising developments in present day Asia. But it is not foreordained that all or any of them will finally succeed. There are huge obstacles to be overcome—distrust, deep differences of ideology and social systems, political and economic rivalries. Improvements in atmosphere could easily prove ephemeral, especially if many outstanding issues prove too difficult to settle in a reasonable period of time.

Moreover, some long-standing rivalries may prove intractable and dangers will doubtless continue. North Vietnam's ambition to dominate all of Indochina has not diminished, though it may resort to different tactics or alter the time frame for attaining that goal. There is continuing fighting in South Vietnam and a residue of hatred that will persist for a long time. South and North Korea have been talking to each other, but no one who knows the recent history of that troubled peninsula believes that reconciliation will be easy or will come early. There are other disputes and differences between other Asian nations, and none of them will be resolved quickly.

There is promise, however, in the evolving pattern of efforts by most of those concerned with Asia to limit the dangers of military conflicts flowing from political differences. We can hope that all concerned will come to recognize the high stake they have in the process of normalizing relations. Stable balances, local and multilateral, may ultimately turn into a stable system of peace.

The United States has a deep interest in that outcome and responsibilities to help achieve it. One of those responsibilities is to make sure that our strength and will are not undermined to the point where our presence in Asia has lost most of its relevance. For if our friends conclude that they can no longer depend on the United States for at least the critical margin of assistance in protecting themselves, they may feel compelled to compromise with those who threaten them, including the forces of subversion and revolution in their midst. Equally important, if adversaries conclude that we no longer intend to maintain a significant presence, or that our willingness to take stern measures when pushed too far has disappeared, then the importance of reaching balanced agreements with us will have largely evaporated.

The end result could be an abrupt and deeply dangerous upsetting of the balance that has been created—and a disintegration of the bridges to reconciliation whose construction has been so effectively begun.

We shall continue to work closely with the governments and peoples of Asia in their efforts to improve the quality of their lives and raise their standards of living. Obviously, what we do in this area can only supplement the central efforts that they make themselves. But that supplement can be of great importance—both to their progress and to the quality of the political relations we enjoy with those concerned.

The United States will continue to be a major power in Asia and to make its essential contribution to the creation of a stable framework of peace. To that end, we give our pledge:

- to be steadfast and dependable in support of our friends;
- to continue to bear our fair share of the responsibility for the security of our allies;
- to develop, with realism and imagination, new and mutually beneficial relations with former adversaries in Asia;
- to help, within our limitations, the continued impressive economic progress of one of the world's most vital regions; and
—above all, to take every step within our power to prevent the recurrence of conflict in an area that has known so much suffering and sacrifice for so many centuries.

We can do no more. We would not be true to ourselves or to our deepest interests if we did less.

LATIN AMERICA

Over the past four years, our interest has been focused on, and our energies dedicated to, a number of supremely important tasks in the world arena: ending a war in an honorable way; putting our relations with long-standing antagonists on a more rational and workable basis; correcting major imbalances in our trade and monetary relationships; and, above all, creating the foundations for a durable structure of peace.

The time and concentration that have gone into these complicated but absolutely crucial efforts have produced allegations that we were neglecting other problems, other areas, and especially other friendly nations. In Latin America this feeling has been particularly widespread, and it is quite understandable. Most Latin Americans, their governments and institutions have become accustomed to dealing with us on the most intimate basis. The flow of people, information, ideas, capital, and goods between the United States and Latin America has increased greatly, particularly since World War II. In some ways, this created a sense of psychological and economic dependence on the United States.

Meanwhile, U.S. attention to Latin America has seemed to wax and wane. At times we appeared to take Latin America for granted. At other times, our zeal and our sense of "mission" led us to take a tutelary role with our neighbors. When we raised the banner of reform, as in the Alliance for Progress, we sometimes tried to tell our neighbors what they really needed and wanted. While all this was done with good intentions and humanitarian concern, and while our efforts had many positive results, they raised expectations to a level that simply was not realizable. Moreover, our approach tended to increase dependence on the United States—for ideas, for direction, and for money.

At the outset of this Administration, we surveyed the world problems that confronted us, and we made several deliberate decisions regarding our posture toward Latin America. First, we resolved to avoid what we saw as the two basic flaws of past performance: taking our Latin neighbors for granted, assuming that they were irrevocably linked to us by commerce and friendship; and launching a crusade in which we would promise to lead the peoples of the hemisphere to prosperity and happiness under our guidance and our formulas.

Our second decision was that, if we were to have a strong and prospering community of nations in this part of the world, we would have to help develop a new, more healthy relationship among the United States
and its neighbors in Latin America and the Caribbean. The kind of mature partnership we envisaged was one in which Latin America would assume increasing responsibility for ideas, for initiatives, and for actions. While the United States would continue to be an active partner, there would be a lessening of the dominant role the United States had previously played.

Thus, we deliberately reduced our visibility on the hemispheric stage, hoping that our neighbors would play more active roles. And they have—not always in perfect harmony, it is true, and sometimes looking more to short-range national advantage than to the possibly greater long-range rewards of cooperation. Still, an open dialogue has begun in the family of the Americas and a more balanced and healthy relationship may be taking shape.

We knew that this course would be criticized by some old friends. There would be those who had become accustomed to old forms and old ways of conducting our common business and who might, therefore, feel we were abandoning them. Others would continue to say “If the Americans aren’t in the lead, it won’t work” or “If Washington doesn’t finance this project, nothing will happen.” Others would complain that the United States was concerned mainly with Europe and Asia and was losing interest in Latin America.

These voices have indeed been heard. On the other hand, many leaders and governments have used these years to take a more searching look at their own problems and to develop their own solutions. Some have moved imaginatively to increase their industrial production and foreign trade. A few have taken courageous actions, sometimes putting themselves in political peril, to correct their worst internal economic and social problems. Some have taken effective steps to eliminate terrorism. Of course, not all countries have been willing or able to do these things, and some have failed to provide real benefits for their peoples.

The Political Climate

All the countries of Latin America and the Caribbean share the need for economic and social progress. Most have to deal with high rates of unemployment among the unskilled and even the educated youth and severe inequities in the distribution of the wealth produced. These problems place heavy burdens on the political apparatus of these countries. In addition, many have other strictly political problems. Some nations have only the most fragile tradition of democratic ways. Often, local conditions provide opportunities for political extremists and revolutionaries. Political violence and terrorism continue in some capitals. In others, military forces provide the most stable and disciplined group.

Most governments in the hemisphere recognize these problems and are trying to find solutions—with varying degrees of success. There is an eager striving for both economic progress and social justice. Yet that striving is taking place against heavy odds, and setbacks and discouragement are common.

The upsurge of national efforts to meet pressing internal problems is in part a direct result of rising nationalism. An increasing sense of national identity characterizes every one of the American states. But it is only part of the explanation for their strong desire to overcome internal weakness.

Another component is the fact that pressures for economic development have become so urgent that governments cannot long survive if they ignore the plight of their people. Modern communications have brought the outside world into the most remote areas and made apparent to millions the vast gulf that separates their way of life from that of even an average family in industrially advanced countries. Those millions are no longer content to accept hunger and poverty and injustice as their preordained lot. They are increasingly less patient with governments that fail to produce results quickly. Any government that ignores this broadening demand for progress does so at its own jeopardy.

As a result, new governments have arrived on the scene in many countries with leaders promising to do more for their people. Some have achieved power through the electoral process; others have seized power. Many members of these governments are from the military services. Styles of operation vary from capital to capital. In some cases, there is a tendency to seek support by appealing to xenophobic attitudes and adopting anti-American themes. In the long run, however, performance will count the most in shaping the judgments of the people.

The U.S. Response

It would be an error to ignore the role the United States has played in helping to encourage Latin America’s move toward greater self-reliance. For from the Rio Grande to Tierra del Fuego, governments and peoples have come to recognize that the days of relying principally on North America to solve their problems have ended. We and others can help, of course. Indeed, some problems can only be solved with the understanding cooperation of others. But the solutions will require each country’s own initiative and imagination and energy. I am con-
vinced that the low-keyed course we have followed over the past four years—the avoidance of slogans and gimmicky, the emphasis on Latin initiatives—has helped in an important way to provide the basis for a stronger, healthier, and more realistic relationship among the members of our hemispheric community.

Accommodation to the diversity of the world community is the keystone of our current policy. That does not diminish our clearly stated preference for free and democratic processes and for governments based thereon. Nor does it weaken our firmly-held conviction that an open economic system and the operation of the market economy are the engines that best generate economic advance. But it does mean that we must be prepared to deal realistically with governments as they are, provided, of course, that they do not endanger security or the general peace of the area.

In Latin America, as in other parts of the world, most of the day-to-day relations of the United States are handled through the bilateral channels of traditional diplomacy. Most of us cannot know how extensive this effort is, how varied, and how time consuming. Cables flow in and out around the clock. A Congressional delegation is visiting here; an American student has been thrown in jail there; a fishing boat has been seized; an investment contract has been signed; an earthquake has leveled half a city. Many of these events never come to the attention of the American public. But our bilateral relations—and the continuing, intensive contacts, consultations and communications they require—provide the foundation and the framework of our foreign relations.

Because of the important role they play in so many countries of Latin America, a special word should be devoted to our relations with the military forces of the hemisphere. Those forces represent a key element in almost all Latin American societies, and in many they have assumed national leadership. Because we have recognized their various roles and because of our mutual security interests, we have developed over the years close ties of cooperation and friendship with many of the military leaders of Latin America. We work cooperatively with them in a variety of ways—combined exercises, conferences, joint mapping ventures. Many of these leaders have attended our advanced training and technical schools. Because of the nature of military organizations, these ties have largely been handled through professional channels.

At one time, the United States was by far the principal source of military equipment for Latin American governments. After World War II, and again after the Korean War, surplus military supplies enabled us to fill most of the hemisphere's needs. But that picture has changed remark-

ably. We estimate that the governments of Latin America have ordered in the last four years more than $1.2 billion worth of military equipment from third countries, principally from Britain, France, West Germany, Canada, Italy, and the Netherlands. That is about six times more than they bought from the United States.

There are several possible reasons for this dramatic shift. In some cases, European sellers have provided highly attractive terms of sale. In other cases, the precise equipment wanted was not immediately available from the United States but was from Europe. Some countries may have wished to reduce their dependence on the United States and to develop other sources of military supplies. But one important reason for Europe's ascendancy in this field has been the limitations we have imposed on ourselves—for example, by fixing annual ceilings on sales of military equipment worldwide and in this hemisphere, and by restricting credit for such sales.

What is involved is the requisition by Latin American countries of relatively modest amounts of equipment for replacement of materiel and for modernization. Our hopes that by unilaterally restricting sales we could discourage our Latin neighbors from diverting money to military equipment and away from development needs have proved unrealistic. And the cost to us has been considerable: in friction with Latin American governments because of our paternalism, and in valuable military relationships which, in turn, provide an important channel for communication across a wide spectrum and influence our total relationships. The domestic costs are also high: in lost employment for our workers, lost profits for business, and loss of balance of payments advantages for our nation.

The Inter-American System

Beyond our purely bilateral relations, there are important institutions and forums in which several or all of the states of the Americas are associated. And for some of these institutions, a moment of truth has arrived.

In 1822, the United States established diplomatic relations with Colombia. We thus became the first nation outside Latin America to recognize the independence and sovereignty of a Latin American state. Over the ensuing 150 years, formal and informal bonds linking the nations of the Western Hemisphere have expanded and grown strong. Gradually, machinery was developed to provide for increasing cooperation and consultation in this family of nations. It makes up what is called the inter-American system. It has been said that if this machinery had not
economic and social development in this hemisphere. This process has begun—at the meeting of the Inter-American Economic and Social Council in Bogota in February 1973 and, most importantly, at the General Assembly of the OAS in April. It is our hope that this process of careful

calls for calm reflection and a reasonable exchange of views. In my message to the recent OAS General Assembly, I noted: “That kind of partnership implies that there are common goals to which we aspire. It implies a trust and confidence in one another. It implies that we can attain our goals more effectively by pursuing them more cooperatively. Above all, it implies that we consider interdependence an essential ingredient in the life of our hemisphere.”

For our part, we shall actively support and participate in the review of ways in which we can most effectively achieve political cooperation and economic and social development in this hemisphere. This process has begun—at the meeting of the Inter-American Economic and Social Council in Bogota in February 1973 and, most importantly, at the General Assembly of the OAS in April. It is our hope that this process of careful

review will produce stronger and more effective ways to identify and advance our common interests in the final quarter of the 20th Century.

Any discussion of the inter-American system raises the question of Cuba. We are asked: if it is desirable to seek reconciliation with countries like the People’s Republic of China and the Soviet Union, why do we not seek the same with Cuba? In fact, the situations are quite different. I have dealt with our relations with Peking and Moscow elsewhere in this Report. As for Cuba, our policy strongly supports decisions taken after careful study by the overwhelming majority of members of the Organization of American States. Those decisions were based on the conclusion that Cuba’s active encouragement and support for the subversion of legitimate governments in the hemisphere represented a threat to peace and security in this part of the world.

Havana’s rhetoric in support of violent revolution has diminished somewhat, and it is selecting its targets for subversion with greater care. But extremists and revolutionaries from many Latin American countries are still being trained in Cuba today in the techniques of guerrilla war, in sabotage, and subversion. Those trained agents and saboteurs are then returned to their home countries, or to neighboring countries, to carry out violence against established governments. Money and arms flow from Cuba to underground groups in some countries. This activity continues to threaten the stability of our hemisphere.

A second reason for concern is that Cuba became the first member of the American family to welcome into the hemisphere the armed power of a non-American state. That action created, among other things, the Cuban missile crisis of 1962. And there is no evidence that Havana’s military ties with Moscow have markedly changed.

One final consideration: one obvious way to undercut the prestige and effectiveness of any international body is for individual members to act alone contrary to joint decisions. We have assured fellow members of the OAS that the United States will not act unilaterally in this matter. We will consider a change in policy toward Cuba when Cuba changes its policy toward the other countries of the hemisphere. But in considering any change, we shall act in concert with our fellow members of the OAS.

The Economic Climate

We have considered some of the political forces at work in the hemisphere. It is equally important to look at economic developments. These underscore both the progress that has been made as well as the profound problems that beg for early solution.
Economic growth in Latin America as a whole continued at a healthy pace last year, possibly exceeding the 6.3 percent rate achieved in 1971. On the other side of the ledger, the area's high rate of population increase—nearly three percent overall—added millions of new mouths to feed and cut per capita income growth to less than four percent. Nevertheless, this was still well above the 2.5 percent set as a goal for the hemisphere in the early 1960's.

The most impressive economic growth was achieved in the largest country of the area, Brazil, where the GNP is estimated to be more than 10 percent above the 1971 level. Mexico's economy advanced substantially, with exports reaching $1.8 billion last year, up almost 23 percent over 1971. Argentina's trade also grew after a disastrous trade deficit in 1971. Colombia cut its trade deficit in half and exports were at record high levels. Venezuela enjoyed its usual healthy trade surplus.

In most of the countries of the hemisphere, however, inflation continued to eat away at the fruits of economic growth. Some governments were willing to take the stern financial and economic measures needed to bring it under control. Those that did not—or that were guided by political rather than economic motives—watched prices and wages spiral upward and living standards decline. Once-prosperous Chile saw its inflation rate reach an estimated 180 percent, accompanied by shortages of food and consumer goods.

Foreign trade, an essential ingredient of economic development, enjoyed a healthy expansion in Latin America as a whole. In 1972, Latin American exports to the United States rose to $6.2 billion, 18 percent more than in 1971. Trade with Europe and Asia also expanded. Over the past two years, Latin America's foreign exchange reserves have increased by more than $2 billion, to $8.9 billion by the end of 1972.

The United States remains determined to improve our own trading relations with Latin America because we recognize that growing trade is good for all concerned. As Latin American economies develop, they become an increasingly important market for U.S. goods—for everything from wheat to tractors to computers. And a steadily expanding U.S. economy can absorb a growing volume of Latin America's products, not only of raw materials but increasingly of component parts, semi-processed goods, and finished manufactured products. To encourage this trade, we have introduced legislation to provide preferential access to the U.S. market for products of developing countries. Surely this most prosperous of all nations should do no less in extending the hand of cooperation to our neighbors in this hemisphere and to others in the developing world.

Meanwhile, approaching worldwide trade negotiations place our bilateral and regional trading problems in the Western Hemisphere in a larger context. Our initiatives in pressing for these new negotiations received welcome support from most of our Latin American trading partners. Members of the General Agreement on Tariffs and Trade, at their meetings in Geneva in late 1972, paid considerable attention to the concerns of developing countries. To deal with these and other matters, the members organized a Preparatory Committee to develop procedures for the coming negotiations. Membership in that committee is open, not only to GATT Contracting Parties, but to all developing countries who want to take part.

Major steps are also being taken in the monetary and financial areas that will alter greatly the international economic system. The annual meetings of the World Bank and International Monetary Fund last September were landmark events in the world of international finance. The Committee of Twenty has been established under the IMF, with three of its members from Latin America, to develop new and more workable mechanisms for the world's monetary relationships.

While production, trade, and foreign exchange reserves have increased substantially, serious economic and social problems continue to beset many of the nearly 300 million inhabitants of Central and South America and the Caribbean. The gross national product of the region averaged close to $600 per person over the last two years. But about one-half of the people have a per capita income of less than $250, and for one-fifth of the people the figure is less than $150. In most countries there is only one doctor for every 2,000 or 3,000 people and life expectancy is 50 years or less in half a dozen countries. High rates of illiteracy in much of Latin America represent a huge social deficit, virtually eliminating all hope for progress among millions of people.

The U.S. Response

The United States cannot solve these great social and economic problems, nor can the world community. The initiative must come from the peoples and governments concerned. But we are helping, and we will continue to do so. In fiscal year 1972, United States bilateral assistance to Latin America and the Caribbean amounted to $338 million. We provided an additional $103 million under the Food for Peace program. Our Export-Import Bank extended long-term loans of more than $500 million to help fund important development programs.
This direct assistance is designed to meet specific needs that can best be handled on a bilateral basis. Nevertheless, we have long realized that bilateral aid is often a cause of friction between governments and the target of local criticism, however biased and unfair. Extreme leftist critics regularly attack their governments for accepting U.S. aid and thereby becoming "puppets." Obviously, no country is obliged to accept aid. But in an atmosphere of increasing nationalism, we recognize that such allegations, however unfounded, have political and emotional impact.

To meet this problem, we have deliberately worked to balance our economic assistance efforts between bilateral programs and cooperative efforts through multinational organizations. In the mid-1960's, roughly two-thirds of our aid to Latin America was bilateral. Today, the proportion has been reversed and two-thirds of our aid flows through multinational organizations such as the Inter-American Development Bank, the World Bank, and the United Nations Development Program.

These multinational programs have several advantages. It is politically easier for a country to accept assistance from an international bank or other organization than from one country. And international organizations can impose strict conditions for loans on economic grounds without opening the door to charges of political "meddling."

It is regrettable that U.S. contributions to the Inter-American Development Bank (IDB) have lagged in the past year. The Administration will make a strong effort to persuade the Congress to correct this deficiency and provide the necessary appropriations to meet our pledge. The continued effective functioning of the IDB will hinge in large part on the full cooperation of the United States.

Our firm support for economic development in the Western Hemisphere is good politics and good economics. We live with other nations of the hemisphere in one neighborhood. And no neighborhood is a very healthy place if many of its people are living daily with poverty, disease, and frustration. People forced to live at the fringe of survival cannot produce the goods the human family needs, master the technology that makes progress achievable, or buy the products of other people's labor. They cannot become full partners in the 20th Century.

Economic development is a product of many forces. The most critical factor is the most obvious—what a people and their government are prepared and able to do for themselves. Trade is another essential element for healthy growth. Beyond that, direct bilateral assistance and multilateral funding can provide the capital and technological expertise for success. But there is a fourth element in successful development, often underestimated and more often misunderstood, and that is private investment.

Foreign investment can provide a highly efficient and effective channel for the flow of modern technology, which is so sorely needed by developing countries. It can broaden production and employment. More than that, inflows of foreign capital help to stimulate the mobilization of local capital for development tasks. As one looks at the record of economic growth among developed and developing countries alike over the past two or three decades, it is not accidental that the most rapid growth has occurred in countries that provided a healthy climate for private investment.

There is, of course, a legitimate concern about specific forms of foreign investment and the terms under which foreign businesses operate. Every country, whether underdeveloped or advanced, imposes restrictions on types and levels of external involvement in its economy. These restrictions can and should be worked out in ways that protect the legitimate interests of both investors and recipients.

The evident economic advantages of sound foreign investment responsibly adapted to the needs of developing countries have not been effectively explained to most local publics. Increasingly, foreign investment has become the special target of extreme nationalists and leftist politicians. In some cases, governments have tried to use foreign companies as political lightning rods or as scapegoats for their own shortcomings.

These factors—nationalism, ideological hostility, and the search for scapegoats—have led some governments to seize foreign assets and to cancel the contracts under which foreign companies were operating. Under international law, any sovereign government has a right to expropriate property for public purposes. But that same international law requires adequate and prompt compensation for the investors or owners.

Moreover, one can fairly question, on economic grounds alone, the wisdom of many such seizures. It is not uncommon for a foreign company, although it is providing considerable local employment and paying sizable taxes, to be seized, only to have the successor enterprise run by the government, provide less production and smaller income for the state. Financial resources often required to subsidize the operation of seized properties and to maintain inflated payrolls could be used much more beneficially for other, badly needed local investment.

Expropriations, even when there is fair compensation, can create deep concern among those whose resources developing countries wish to at-
tract—commercial banks, international lending institutions, private investors. Such actions tend to dry up sources of investment for other purposes.

All these factors—the legitimate protection of American businesses abroad, the requirements of international law, the preservation of a reasonable and mutually beneficial atmosphere for foreign investment—led us in early 1972 to define our policy toward expropriations. We have made it clear that if an American firm were seized without reasonable efforts to make effective payment, we would provide no new bilateral economic assistance to the expropriating country. We would consider exceptions only if there were overriding humanitarian concerns or other major factors involving our larger interests. Nor would we support applications for loans by such countries in international development institutions.

The book value of U.S. investments in Latin America has risen to more than $16 billion. But our Latin American friends point out that the rate of growth of U.S. investment has been less in their countries than in Europe and Asia. The difference is accounted for in part, perhaps decisively, by the judgment investors make regarding the relative welcome their investments will receive.

Changes in attitudes toward investment will take time. But we believe these changes are underway in most parts of the hemisphere, in the private as well as the public sector. We are moving toward a better understanding that private investments, properly managed, operating under reasonable conditions, and sensitive to the needs and aspirations of the societies in which they function, can be mutually advantageous to investors and recipients.

Current Problems

In October 1969, I said that our policy toward Latin America would be based on five principles:

—firm commitment to the inter-American system;
—respect for national identity and national dignity;
—continued U.S. assistance to economic development;
—belief that this assistance should take the form of U.S. support for Latin American initiatives and should be extended primarily on a multilateral basis;
—dedication to improving the quality of life in the New World.

Those principles remain as valid today as when I first stated them. In candor, however, we must admit that our performance has not always been fully what we and our friends may have wished. I believe we can do better in our second term. I am determined that we shall do better. We owe it to those who created and passed along the unique inter-American system. We should leave to those who will inherit our works a structure of peaceful cooperation more effective than the one we found.

A number of bilateral and multilateral problems call for urgent attention. If we can solve them, or at least move toward their solution, we can create a new and positive atmosphere in our hemisphere.

The single most important irritant in relations with our nearest Latin neighbor, Mexico, is the high salinity of the waters of the Colorado River diverted to Mexico under our 1944 Water Treaty. I discussed this matter with President Echeverria last June. My personal representative, former Attorney General Herbert Brownell, has been working intensively on this problem and has made his recommendations to me. We shall soon be presenting our Mexican neighbors with what I hope will be a permanent, definitive, and just solution. With mutual understanding and common efforts, I believe this problem can be removed from the agenda of outstanding issues.

Another serious problem, of deep concern to every responsible government, is the illegal flow of narcotics across national boundaries. Some of these drugs are produced in the Western Hemisphere. And some Latin American countries have been used by international drug traffickers as a channel for drugs from Europe, the Middle East, and Asia into this hemisphere and on to the United States.

Over the past year, we and many Latin American governments have made intensive efforts to restrict this dangerous flow. Our common effort has taken a variety of forms: special training for customs and immigration agents; improved equipment ranging from two-way radios to helicopters; exchanges of intelligence data; tightened anti-drug laws; extradition treaties, and others. It is vitally important that we press forward with the campaign to destroy this dangerous traffic which menaces us all, especially our young.

Another international issue that confronts the Americas, as well as the rest of the world community, concerns the law of the sea. Every country, whether or not it touches on an international body of water, is affected. The problems include: the extent to which any nation can claim adjoining waters as its territorial sea; the proper limit on each nation's control over the resources in and under the sea; guarantees of the rights of free passage through international straits and other navigational freedoms; the preservation of the marine environment; and the status of traditional high seas freedoms. Resolution of these and
many related questions are of profound importance to all nations. Political, economic, and security interests of the highest sensitivity will have to be considered.

An international conference on the law of the sea will soon be convened to consider and solve these complicated problems. We know it will not be easy. But we know, too, that an effective agreement that deals equitably with the vital concerns of all nations would be a landmark in international affairs.

In the Americas, maritime disputes have centered on the question of fishing rights in waters that we consider to be beyond the limits of national jurisdiction which a state may claim under international law, but that some of our neighbors claim as their territorial seas or exclusive resource zones. These differences have sometimes led to confrontations, including the seizure of U.S. fishing boats and the imposition of heavy fines. Neither party to this kind of dispute enjoys any real benefit. Indeed, both suffer because of the resulting exacerbation of political, economic, and security relations.

The real point is not fishing rights or retaliation. Rather it is: what rules shall govern the use of the oceans? If countries make unilateral claims over ocean space without international agreement, conflict over uses of the area and its resources are inevitable. We believe that the Law of the Sea Conference provides the appropriate forum for resolving outstanding law of the sea problems. We intend to work with the Latin Americans and all other nations toward achieving a timely and successful conference.

Another important unresolved problem concerns the Panama Canal and the surrounding Zone. U.S. operation of the Canal and our presence in Panama are governed by the terms of a treaty drafted in 1903. The world has changed radically during the 70 years this treaty has been in effect. Latin America has changed. Panama has changed. And the terms of our relationship should reflect those changes in a reasonable way.

For the past nine years, efforts to work out a new treaty acceptable to both parties have failed. That failure has put considerable strain on our relations with Panama. It is time for both parties to take a fresh look at this problem and to develop a new relationship between us—one that will guarantee continued effective operation of the Canal while meeting Panama's legitimate aspirations.

Looking to the Future

I intend to underscore our deep interest in Latin America through expanded personal involvement. Last year, I emphasized my concern by sending two personal representatives, former Secretary of the Treasury Connally and Federal Reserve Chairman Burns, to a number of countries in Latin America. The detailed and perceptive reports I received from these special envoys helped to keep me abreast of current problems and developments. This year, I will be consulting with my fellow presidents in the hemisphere and with other knowledgeable Latin Americans on our future course. I have asked Secretary of State Rogers to visit Latin America to convey our intention to continue to work closely with our neighbors. And I plan to make at least one visit to Latin America this year.

At the same time, I hope Members of the Congress will travel to the area and see what is happening in this part of the world. Such visits could produce new insights into the complex problems we and our neighbors confront. They would provide an awareness of what able and dedicated Americans are doing in those countries. And it would create a base of knowledge from which understanding legislative action might come.

I urge the Congress to take a new and thorough look at existing legislation that affects our relations with Latin America. We need to study, for example, whether various legislative restrictions serve the purposes for which they were designed. Do they deter other governments from various actions, such as seizing fishing boats? Or do they merely make the solution of such problems more difficult? I believe some current restrictions are entirely too rigid and deprive us of the flexibility we need to work out mutually beneficial solutions.

Similarly, we should inquire whether current limitations on military equipment sales serve our interests and whether they promote or weaken our cooperation with Latin America. I believe our unilateral efforts to restrict arms sales have helped contribute to the rise of nationalist feelings and to the growing resentment against remnants of U.S. paternalism. The irritation thus aroused helps explain at least some of our problems in other matters. I urge the Congress to take a hard look at this problem and to take steps to rectify past errors. For I think we have been hurting ourselves more than anyone else by insisting on such limitations, and harming our relations with Latin America in the process.

I noted earlier the problem of modernizing the machinery of cooperation and consultation in the inter-American system. This process has now begun. We look forward to working with Latin America to make the inter-American system more responsive to modern needs. This will require imagination and initiative from all concerned. It also calls for a hard-headed assessment of existing institutions. Are they effective? Are they doing what is most needed? Are they accurately defining the most urgent needs? In prescribing actions, do they take into full account the
material, political, and psychological limitations under which all governments must function? I have instructed my advisors to give this matter close attention in the months ahead, and I feel confident that other heads of government will do the same. By focusing on the many areas in which the best interests of Latin America and the United States converge, we can begin a new and promising phase of hemispheric cooperation.

Over the next four years, the United States will be heavily engaged in giving substance to the new world order that now is taking shape. High on the agenda will be problems of world trade and of strengthening the international monetary system. These matters will be of special concern to Latin America as it continues to expand its exports outside the hemisphere. Because we recognized this interest, we strongly supported the inclusion of three Latin American governments in the Committee of Twenty that is considering monetary reform. As we move into this period of intensive trade and monetary negotiations, it will be to our mutual advantage if the United States and neighboring governments work closely together on these issues. We have many shared interests in assuring an expansion of world trade and in preventing the rise of restrictive trading blocs which would inhibit the growth of U.S. and Latin American commerce. We therefore plan to undertake intensive consultation with Latin American governments and representatives—in the OAS and its organs, the Inter-American Development Bank, the International Monetary Fund, GATT, and other appropriate bodies. The process of hemispheric cooperation can be strengthened as we confront these difficult issues together.

Over the next four years, we will also continue our assistance efforts—through bilateral and multilateral channels—to help improve the quality of life of all the people of this hemisphere.

As we move toward the end of our first 200 years as a nation—and toward the end of a troubled century—we face many exciting challenges. They will require the best that is in us. But we now have a framework for peaceful cooperation on which to build. And as we build, the lives and health and happiness of the hundreds of millions of people living in Latin America will be in the forefront of our concern.
PART IV

REGIONS OF TENSION AND OPPORTUNITY

Middle East
South Asia
Africa
Peace in the Middle East is central to the global structure of peace. Strategically, the Middle East is a point where interests of the major powers converge. It is a reservoir of energy resources on which much of the world depends. Politically, it is a region of diversity, dynamism, and turmoil, rent by national, social, and ideological division—and of course by the Arab-Israeli conflict. Two world wars and the rising tide of nationalism have broken down the pre-1914 order, but new patterns of stability have not yet been established. Modern quarrels have compounded long-standing ones. Because of the area's strategic importance, outside powers have continued to involve themselves, often competitively. Several times since World War II, the Middle East has been an arena of major crisis.

The irony is that the Middle East also has such great potential for progress and peaceful development. Of all the regions of the developing world, the Middle East, because of its wealth, is uniquely not dependent on the heavy infusion of capital resources from outside. Its wealthier nations have been willing and able to provide the capital for their own development and have begun to assist their neighbors' development. Mechanisms of regional self-reliance and cooperation are already functioning. The yearning for unity is strong within the Arab world; it has deep historical and cultural roots and its positive thrust has found new expression in these cooperative enterprises.

The region's drive for self-reliance matches the philosophy of United States foreign policy in a new era. Technical assistance and the provision of skills, now the most relevant forms of external aid in much of the Middle East, are forms of aid which the United States is uniquely capable of providing and can sustain over a long term. The United States has long been a champion of the region's independence from colonial or other external domination. In conditions of peace, there is a natural community of interest between the United States and all the nations of the Middle East—an interest in the region's progress, stability, and independence.

The requirements of peace in the Middle East are not hard to define in principle. It requires basic decisions by the countries of the Middle East to pursue political solutions and coexist with one another. Outside powers with interests in the area must accept their responsibility for restraint and for helping to mitigate tensions rather than exploiting them for their own advantage.

These are principles which the United States has sought to engage the other great powers in observing. Coexistence, negotiated solutions, avoiding the use or threat of force, great power restraint, noninterference, respect for the sovereignty and territorial integrity of states, renunciation of hegemony or unilateral advantage—these are the principles of the Shanghai Communique of February 1972 and the Basic Principles of U.S.-Soviet Relations of May 1972. They are not new principles; every member state of the United Nations has subscribed to their essential elements. The UN Security Council in passing Resolution 242 on November 22, 1967, envisioned a settlement of the Arab-Israeli dispute that would be consistent with them—a settlement which would include "withdrawal of Israeli armed forces from territories occupied in the recent conflict; termination of all claims or states of belligerency and respect for and acknowledgement of the sovereignty, territorial integrity and political independence of every state in the area and their right to live in peace within secure and recognized boundaries free from threats or acts of force."

A commitment to such principles by the outside powers is itself a contribution to the framework for peace in the Middle East. A similar commitment by the principal countries directly involved, concretely expressed in processes of negotiation, is essential.

The Arab-Israeli Conflict

The focus of attention in the Middle East has been the prolonged crisis of the Arab-Israeli conflict and the persistent efforts to resolve it.

In my first Foreign Policy Report three years ago, I pointed out the serious elements of intractability that marked this conflict. It was a dispute in which each side saw vital interests at stake that could not be compromised. To Israel, the issue was survival. The physical security provided by the territories it occupied in 1967 seemed a better safeguard than Arab commitments to live in peace in exchange for return of all those territories—commitments whose reliability could be fully tested only after Israel had withdrawn. To the Arabs, negotiating new borders directly with Israel, as the latter wished, while Israel occupied Arab lands and while Palestinian aspirations went unfulfilled, seemed incompatible with justice and with the sovereignty of Arab nations. A powerful legacy of mutual fear and mistrust had to be overcome. Until that was done no compromise formula for settlement was acceptable to either
The problem remains. For this very reason, I have said that no other crisis area of the world has greater importance or higher priority for the United States in the second term of my Administration. At the beginning of this year I met personally with Jordan’s King Hussein, Egyptian Presidential Adviser Hafiz Ismail, and Israeli Prime Minister Meir to renew explorations for a solution.

The United States has no illusions. Instant peace in the Middle East is a dream—but the absence of progress toward a settlement means an ever-present risk of wider war, and a steady deterioration of the prospects for regional stability and for constructive relations between the countries of the area and the world outside. Arab-Israeli reconciliation may seem impossible—but in many areas of the world, accommodations not fully satisfactory to either side have eased the intensity of conflict and provided an additional measure of security to both sides. Peace cannot be imposed from outside—but I am convinced that a settlement in the Middle East is in the national interest of the United States and that for us to abandon the quest for a settlement would be inconsistent with our responsibility as a great power.

The issue for the United States, therefore, is not the desirability of an Arab-Israeli settlement, but how it can be achieved. The issue is not whether the United States will be involved in the effort to achieve it, but how the United States can be involved usefully and effectively.

The Last Four Years. Over the last four years, the United States has taken a series of initiatives and explored a variety of approaches to promoting a negotiating process. The effort has resulted in restoration of the ceasefire along the Suez Canal. It has also provided sharp definition of the issues and basic negotiating positions of the parties and a measure of realism on all sides. However, we have not succeeded in establishing a negotiating process between the parties or in achieving any substantive agreement concrete enough to break the impasse.

In 1969, starting from Resolution 242, four permanent members of the Security Council, and the United States and Soviet Union in particular, began to discuss a framework for an Arab-Israeli settlement in order to explore how the outside powers might usefully relate to the process of settlement. Their approaches differed, but the discussions illuminated the issues that divided them. By late 1969 and early 1970, significant further progress seemed unlikely for the time being.

In the summer of 1970, with the Four Power discussions stalemated and the military conflict along the Suez Canal escalating sharply with the active participation of Soviet air and air defense units, the United States launched a major initiative to reestablish the ceasefire and to start negotiations. The firing stopped on August 7, but the start of negotiations was delayed by the violation in Egypt of a related military standstill agreement. A month later the authority of the Government of Jordan was challenged by the Palestinian guerrillas and an invasion from Syria. The challenge was put down, and the return of stability enhanced the ability of the Jordanian government to address the question of peace.

Early in 1971, Ambassador Jarring, the special representative of the UN Secretary General, began discussions with Israel and Egypt to try to promote agreement between the parties in accordance with his mandate under Resolution 242. When this effort lost momentum by the end of February 1971, attention shifted to the possibility of a step-by-step approach to peace, beginning with a limited pullback of Israeli troops from the Suez Canal and the opening of the Canal. At the request of Egypt and Israel, Secretary Rogers explored this approach. Talks to this end, which occupied most of the summer and fall, tried to grapple with these basic issues: the relationship of such an interim agreement to an overall peace agreement; the distance of the limited Israeli withdrawal; the nature of the Egyptian presence in the evacuated territory; the timing of Israel’s use of the Canal; and the duration of the ceasefire. In late 1971 and early 1972, the United States sought, again without success, to initiate indirect negotiations under its aegis between Egypt and Israel on an interim agreement.

In 1972, attention again focused on the relationship of the United States and the Soviet Union to the Middle East problem. At the Moscow Summit in May both sides reviewed their positions and reaffirmed their readiness to play a part in bringing about a settlement based on Resolution 242. The United States emphasized that a genuine negotiating process between the nations in the area was essential. The danger of inadvertent great power confrontation over the Middle East was reduced by the Moscow Summit, and also by a decision by the Government of Egypt in July to request the withdrawal of most Soviet military personnel from Egypt.

American policy has sought in other ways to promote stability in the Middle East and to preserve the possibility of solution by negotiation rather than by force of arms. During the September 1970 crisis in Jordan, the United States acted firmly to deter a wider war and dampen a dangerous situation. Throughout the period, this Administration continued its established policy of maintaining a military balance in the Middle East. I have said many times that an arms balance is essential to stability...
in that area—but that it alone cannot bring peace. The search for a
negotiated settlement must continue.

The ceasefire reestablished in 1970 at American initiative continues to
day, and remains essential to any hope for a peaceful settlement of
the Arab-Israeli conflict. The cessation of organized fighting has not only
saved hundreds and perhaps thousands of lives; it has also preserved a
climate that would permit negotiation. But the ceasefire will necessarily
remain uneasy unless the hope for peace can be sustained by active
negotiations.

A serious threat to the ceasefire and to the prospects for any political
solution is the bitterness engendered by the mounting spiral of terrorism
and reprisal. Terrorist acts took on a new and horrible dimension last
year with the shootings at Israel’s Lod Airport in the spring, where a
number of Americans lost their lives, and the murder of Israeli athletes
at the Munich Olympics in September. This was followed during the
fall by a series of Israeli attacks on Lebanese and Syrian military installa-
tions as well as on Palestinian guerrilla bases in Lebanon and Syria. A
Libyan civilian airliner was downed by Israeli aircraft while straying over
the Sinai in February 1973. The following month, terrorists murdered
two American diplomats and a Belgian diplomat held hostage in Khartoum. In April 1973, terrorists attacked Israeli targets in Cyprus, and
Israel attacked headquarters and installations of fedayeen organizations
in and around Beirut, killing three prominent Palestinian militants.

International terrorism is not exclusively an Arab-Israeli problem; it is
an international problem, which the United States has made a major
international effort to combat. But a generation of frustration among dis-
placed Palestinians has made the Middle East a particular focal point
for such violence.

The Situation Today. America’s objective in the Middle East is
still to help move the Arab-Israeli dispute from confrontation to negotia-
tion and then toward conditions of peace as envisioned in UN Security
Council Resolution 242.

But a solution cannot be imposed by the outside powers on unwilling
governments. If we tried, the parties would feel no stake in observing its
terms, and the outside powers would be engaged indefinitely in enforcing
them. A solution can last only if the parties commit themselves to it
directly. Serious negotiation will be possible, however, only if a decision is
made on each side that the issues must be finally resolved by a negotiated
settlement rather than by the weight or threat of force. This is more than a
decision on the mechanics of negotiation; it is a decision that peace is
worth compromise. It should be possible to enter such negotiations with-
out expecting to settle all differences at once, without preconditions, and
without conceding principles of honor or justice.

Two negotiating tracks have been discussed. One is Ambassador Jar-
ring’s effort to help the parties reach agreement on an overall peace
settlement. The second is the offer of the United States to help get talks
started on an interim agreement as a first step to facilitate negotiations
on an overall settlement.

A persistent impasse, which is substantive as well as procedural, has
blocked both of these approaches. It is rooted primarily in the opposing
positions of the two sides on the issue of the territories. Israel has insisted
that its borders should be the subject of negotiations and that substantial
changes in the pre-1967 lines are necessary. Egypt, while stating its readi-
ness to enter into a peace agreement with Israel, has insisted that before
it could enter negotiations, even on an interim agreement, Israel must
commit itself to withdraw to the pre-1967 lines. Jordan has also made
clear its commitment to a peaceful settlement with Israel, but insists on
the return of the occupied West Bank without substantial border changes
and on restoration of a sovereign position in the Arab part of Jerusalem.

Recognizing the difficulty of breaking the impasse in one negotiating
step—of reconciling Arab concern for sovereignty with Israeli concern
for security—the United States has favored trying to achieve agreement
first on an interim step. Since both Egypt and Israel asked us in 1971
to help them negotiate such an interim agreement, we proposed indirect
talks between representatives of the two sides brought together at the
same location. In February 1972, Israel agreed to enter talks on this
basis; Egypt has expressed reservations about any negotiations in the
absence of prior Israeli commitment to total withdrawal from Sinai
in an overall settlement.

The dilemmas are evident. Egypt’s willingness to take new steps,
for example, is inhibited by the fear that further concessions could erode
the principle of sovereignty without assuring that Israel is interested in
reaching agreement or will make appropriate concessions in return.
Israel’s incentive to be forthcoming depends on a difficult basic judg-
ment whether its giving up the physical buffer of territory would be
compensated by less tangible assurances of its security—such as Arab
peace commitments, demilitarization and other security arrangements,
external guarantees, and a transformed and hopefully more secure
political environment in the Middle East. Urging flexibility on both
parties in the abstract seems futile. Neither appears willing, without
assurance of a satisfactory quid pro quo, to offer specific modifications
of basic positions sufficient to get a concrete negotiating process started.
A step-by-step approach still seems most practical, but we fully recognize that one step by itself cannot bring peace. First, there is a relationship between any initial step toward peace and steps which are to follow toward a broader settlement. We are open-minded on how that relationship might be established in a negotiating process, and on what role the United States might play. But the relationship cannot be ignored. Second, all important aspects of the Arab-Israeli conflict must be addressed at some stage, including the legitimate interests of the Palestinians. Implementation can occur in stages, and it should not be precluded that some issues and disputes could be resolved on a priority basis. But a comprehensive settlement must cover all the parties and all the major issues.

The issues are formidable, interlinked, and laden with emotion. The solutions cannot be found in general principles alone, but must be embodied in concrete negotiated arrangements. The parties will not be tricked into compromise positions by artful procedures. But there is room for accommodation and an overwhelming necessity to seek it.

The Interests and Responsibilities of the Major Powers

Too often in recent history, Middle East turbulence has been compounded by the involvement of outside powers. This is an ever-present danger. Our efforts with other major powers to move from an era of confrontation to an era of negotiation have addressed this problem directly.

The nations of the Middle East have the right to determine their own relationships with the major powers. They will do so according to their own judgment of their own requirements. The United States has no desire to block or interfere with political ties freely developed between Middle East countries and other major nations in the world. We have our close ties with Israel, which we value, and we also have a strong interest in preserving and developing our ties with the Arab world. Other powers have the same right. But attempts at exclusion or predominance are an invitation to conflict, either local or global.

The first dimension of the problem is, of course, the direct involvement of the great powers in the Arab-Israeli conflict. A significant Soviet presence and substantial Soviet military aid continue in the area. The Soviet Union signed a friendship treaty with Iraq in April 1972. New shipments of Soviet military equipment have now been concentrated in Syria, Iraq, and the People's Democratic Republic of Yemen. The significant factor is whether the Soviet presence is paralleled by a Soviet interest in promoting peaceful solutions. The major powers have a continuing obligation to refrain from steps which will raise again the danger of their direct engagement in military conflict.

The danger of immediate U.S.-Soviet confrontation, a source of grave concern in 1970 and 1971, is at the moment reduced. The Moscow Summit and the agreement on the Basic Principles of our relations contributed to this, not only for the present but also for the longer term. Neither side at the summit had any illusions that we could resolve the Arab-Israeli conflict, but there was agreement that we could keep it from becoming a source of conflict between us. The United States has no interest in excluding the Soviet Union from contributing to a Middle East settlement or from playing a significant role there. In fact, at the summit we agreed that we each had an obligation to help promote a settlement in accordance with Resolution 242.

The responsibilities and interests of the major powers in the Middle East go beyond the Arab-Israeli dispute. There are extensive political and economic ties between the countries of the region and the outside world. Here, too, there is a world interest in not allowing competitive interests to interfere with a stable evolution.

The United States considers it a principal objective to rebuild its political relations with those Arab states with whom we enjoyed good relations for most of the postwar period but which broke relations with us in 1967. We were able to restore diplomatic relations with the Yemen Arab Republic at the time of Secretary of State Rogers' visit there in July 1972; reestablishment of ties with Sudan followed shortly thereafter. We assigned two American diplomats to the interests section in Baghdad, Iraq, in 1972. We have just concluded an agreement with Algeria on a major project for the import of Algerian liquified natural gas. The United States is prepared for normal bilateral relations with all the nations of the Middle East.

The European Community is also expanding and consolidating direct ties with many nations of the Middle East and North Africa. This is a natural development; it builds on historical relationships and the economic advantages of geography. It gives these nations a greater stake in relations with the West. It gives the Western European countries an important role in maintaining the structure of peace beyond Europe. We are concerned, however, that as these relations evolve they not embody discriminatory arrangements which adversely affect our trade and that of other countries.

Economic competition in the Middle East between the United States and other free world nations could be particularly damaging in the critical area of energy. The traditional relationship between suppliers
and consumers of energy has radically, and probably irrevocably, changed. In the Persian Gulf, where about two-thirds of the world's known oil reserves are located, Arab oil-producing countries have joined to reorder their relations with the international oil industry and the consumer countries. Iran has taken over operation of the companies working there. Our own requirements for Persian Gulf oil have been small—about ten percent of our total oil imports—but they will rise as U.S. energy demand expands. Assurance of the continuing flow of Middle East energy resources is increasingly important for the United States, Western Europe, and Japan. This should be addressed as a common interest.

As for the relations between producer and consumer nations, here too we believe there is a shared interest. We both stand to gain from a stable and reliable economic relationship, ensuring revenues for them and energy resources for us. Oil revenues paid to Persian Gulf states have trebled in the last five years, financing their economic development and providing an expanding market for us. Their rapidly growing foreign exchange reserves give them increasing weight—and an increasing stake—in the international monetary system. We share these countries' desire to find arrangements which enhance the region's prosperity while assuring an effective means for meeting the world's demand for energy.

The Regional Framework

Stability in the Middle East does not depend only on Arab-Israeli peace and stable relationships with and among the great powers. Personal rivalries, ideological conflict, territorial disputes, economic competition, religious and ethnic divisions are indigenous sources of turmoil which exacerbate—and are in turn exacerbated by—these other tensions. Stability therefore depends also on strengthening regional forces for cooperation and collaboration.

At the end of 1971, the nations of the Persian Gulf passed through a critical transition, with the termination of the century-old protectorate relationship between Great Britain and the nine Arab Emirates of the lower Gulf. Considering the number of states involved and the diversity of political and economic conditions, the transition of this area to independence has been remarkably smooth. The Emirates have developed new political ties among themselves and assumed responsibility for their own security and destiny. Some territorial disputes and rivalries remain, but these have not been allowed to undermine their perceived common interest in unity and stability. Two of the largest Gulf states, Iran and Saudi Arabia, have undertaken greater responsibility for helping to enhance the area's stability and for ensuring that the destiny of the Gulf will be determined by the nations of the Gulf without interference from outside.

Mutual assistance among Middle East nations has an important economic dimension. The wealthier nations of the area have—in their own interest and in the general interest—taken on the responsibility of assisting economic and social development. On the occasion of my visit to Tehran last May, I joined with His Imperial Majesty the Shah of Iran in affirming that "the economic development and welfare of the bordering states of the Persian Gulf are of importance to the stability of the region." The Kuwait Fund for Arab Economic Development has worked effectively in this area for some time. The Government of Saudi Arabia is providing significant support to its neighbors. Iran and other Middle East nations are adding to the flow of financial and technical help within the region.

These are positive developments. They strengthen the forces of moderation. There is reason for hope that these trends of collaboration will survive, gather strength over time, and contribute in turn to a favorable political evolution.

Agenda for the Future

Looking ahead several years, what does the United States hope to see in the Middle East? We hope to see, first of all, a region at peace—with a number of strong, healthy, and independent political units cooperating among themselves, free of external interference, and welcoming the constructive participation of outside powers. I have no doubt that this is also the objective of the peoples and governments of all the countries in the Middle East.

The United States will therefore address itself to these specific tasks:

—First is the settlement of the Arab-Israeli conflict through a process of negotiation. There must be realism on all sides about what is achievable. Neither side will attain its maximum demands, but an accommodation is possible that preserves the honor and security of both sides. The absence of peace is a threat to both sides, which will increase, not diminish, over time.

—Second, the world and the region have an interest in turning great-power relationships with the Middle East into a force for stability. This means that the principles of restraint, peaceful settlement, and avoidance of confrontation that are set forth in the Basic Principles of U.S.-Soviet Relations must become enduring realities. It will require outward-looking economic relations among the Middle East,
North Africa, the European Community, and the United States. It will require stable and dependable relations between suppliers and consumers of energy.

- Third, the United States will seek to strengthen its ties with all its traditional friends in the Middle East and restore bilateral relations where they have been severed. In conditions of security and peace, there are prospects for new forms of cooperation, in the interest of enhancing the independence of the area's nations.

- In the economic dimension particularly, the United States can make a unique contribution to progress and stability. Where capital assistance is not the greatest need, American technical and managerial skills can be a major spur to modernization. Where promising new development programs are being undertaken, the United States can contribute resources productively. If the peoples of the area are to realize their aspirations for a better future in conditions of peace, economic rehabilitation and development will be essential, and the United States will do its share.

The United States is committed to helping achieve these objectives.

SOUTH ASIA

The American interest in South Asia is clearcut: we want the region to be a contributor to global peace, not a threat to it. We want the region to be an example to the world of peaceful progress.

Last year in South Asia was a year of rebuilding. Societies torn by political upheaval, war, and natural disaster took up the tasks of reconstruction. The nations of the subcontinent began reshaping the relations among themselves. They began rebuilding their relations with the world outside. This is an arduous process, but the United States has an important stake in its success.

I have always believed that the United States, uniquely among the major powers, shared a common interest with the nations of the subcontinent in their peace, independence, and stability. Today this is more true than ever. The United States has no economic or strategic interest in a privileged position, nor in forming ties directed against any country inside the region or outside the region, nor in altering the basic political framework on the subcontinent. We have an interest in seeing that no other great power attempts this either—and we believe the best insurance against this is a stable regional system founded on the secure independence of each nation in it. The destiny of each nation of South Asia should be for it to determine. The United States serves its own interest by respecting that right and helping them preserve it.

As I wrote last October to my Advisory Panel on South Asia Relief Assistance after it reported to me on its visit to Bangladesh, "The United States could not and cannot ignore the needs and the aspirations of the more than 700 million South Asians. Our effort to join other nations in meeting the most urgent needs of those who live in this area has reflected not only our compassion for them in their distress but also our recognition that an orderly society depends on the capacity of governments to promote the general welfare."

We therefore want to see Pakistan consolidate its integrity as a nation, restore its economic vitality, and take its place among the proud democratic nations of the world. We want to see the new People's Republic of Bangladesh flourish as a non-aligned and economically viable democratic state. We want to join with India in a mature relationship founded on equality, reciprocity, and mutual interests, reflecting India's stature as a great free nation. We want to see all the small countries of South Asia live in stability and secure in their independence.
The Structure of Peace in South Asia

In 1971 the breakdown of peace in South Asia not only brought war and suffering to the millions of people directly affected. It raised concern about stability for the whole region from the Persian Gulf to Southeast Asia. It involved the great powers in a potentially dangerous confrontation whose significance went far beyond the immediate South Asian conflict.

Today we can hope that the subcontinent has found a new foundation for stability.

This will depend first and foremost on the normalization of relations between India, Pakistan, and Bangladesh. This means, to begin with, resolving the issues left by the events of 1971: repatriation of prisoners of war and other personnel detained; recognition and establishment of diplomatic relations; and resumption of trade and equitable division of assets and liabilities between Pakistan and Bangladesh. Beyond this, it means consolidating a new stability on the subcontinent: an end to the arms race; an end to territorial disputes; expanded economic cooperation; and creation of a climate of security and, ultimately, reconciliation.

The primary responsibility for this process rests necessarily on the region's nations. The Simla Conference in June-July 1972 between President Bhutto and Prime Minister Gandhi, which produced agreement on the outline of a settlement between Pakistan and India, was a dramatic and promising step. Progress since then has been slow, as the relationship between India and Pakistan has become intertwined with the resolution of the unsettled issues between Pakistan and Bangladesh. President Bhutto has been understandably insistent on the return of the 90,000 Pakistani prisoners of war detained in India. India has been unwilling to release them without Bangladesh's concurrence. Prime Minister Mujib, until recently, insisted that Pakistani recognition of Bangladesh must precede any other steps toward reconciliation, and he has sought the return of Bengalees detained in Pakistan. Just this past month, however, new efforts have been made to break the impasse.

The United States, from its Vietnam experience, has a natural sympathy for Pakistan's desire for the return of its prisoners of war, and for the repatriation of all detainees. It is a basic humanitarian concern and also a way of liquidating one of the vestiges of the war and beginning a process of reconciliation. At the same time, recognition of Bangladesh as a new reality in the subcontinent is a key step toward stabilization of relations in South Asia.

As a general matter, reconciliation on the subcontinent is not a process the United States can directly affect, except to give encouragement and support to constructive actions. We have sought, on the other hand, through our bilateral relations with the nations of the area, to address the fundamental problems of recovery and stability.

Pakistan. As I stated in my Report last year, "Our concern for the well-being and security of the people of Pakistan does not end with the end of a crisis." The United States has always had a close and warm relationship with Pakistan, and we have a strong interest today in seeing it build a new future.

Pakistan entered 1972 a deeply troubled and demoralized nation. Crisis and defeat in 1971 had torn apart its political structure, halved its population, and shattered the established patterns of its economy. Yet the events of 1971 also brought to power the first civilian administration Pakistan has had since 1958 and produced a new and determined effort to develop institutions of representative government. The National Assembly in April 1973 has just adopted a new democratic federal constitution. President Bhutto has taken many courageous steps of political, economic, and social reform. He has restored much of the self-confidence of his countrymen.

The cohesion and stability of Pakistan are of critical importance to the structure of peace in South Asia. Encouragement of turmoil within nations on the subcontinent can bring not only the devastation of civil and international war, but the involvement of outside powers. This is the basis of America's interest in helping Pakistan now consolidate its integrity as a nation.

To this end, since January 1972 we have provided over $300 million to assist Pakistan's program of economic recovery. Our assistance in the form of new loans to facilitate imports essential to Pakistan's industrial and agricultural growth totaled $120 million. We worked with Pakistani and United Nations authorities to channel $14 million in food and commodity emergency relief to the roughly 1.2 million Pakistanis displaced from their homes by the 1971 war. We have committed $124 million in Title I PL-480 foodstuffs (including 1.3 million tons of wheat) to meet shortages resulting from inadequate rainfall and the dislocations of the war. We provided $5 million in technical assistance. We made about $45 million in aid available to support the multilateral Indus Basin development program. In addition, we joined with other members of the Pakistan Consortium, led by the World Bank, to provide emergency debt relief, the U.S. share totaling $50 million over 1972 and 1973.

As Pakistan now turns its efforts again to long term economic and social development, the United States once again stands ready to assist in collaboration with the Consortium and the World Bank. The prospects
are encouraging, particularly because of the success Pakistan has had through its own efforts in the past year to reorient its economy after the loss of the eastern wing. Pakistan has already managed to expand its international markets for its cotton and rice to more than offset the loss of the east as a market and as an exporter. Its export earnings this year may even surpass the combined export earnings of East and West Pakistan in 1970, the last pre-war year.

The United States believes that Pakistan, like any other nation, has a right to its independence and security. Peace and stability on the subcontinent cannot be founded on any other basis. I made a decision in March 1973 to fulfill outstanding contractual obligations to Pakistan and India for limited quantities of military equipment whose delivery had been suspended in 1971. Our policy now, as before 1971, is to permit the export of non-lethal equipment and of spare parts for equipment previously supplied by the United States. There is no change in our purpose. We are not participating in an arms race in the subcontinent.

Bangladesh. Bangladesh emerged from the 1971 crisis with a surge of enthusiasm, an unpredictable political situation, and a shattered economy. Its leaders faced the formidable tasks of restoring civil peace and harnessing national energies for building the political and administrative organization for a new state, while meeting the emergency and long-term human and development needs of what is now one of the world's most populous—and poorest—nations.

While the United States deplored the fact that military solutions were resorted to in 1971, we did not dispute the aspirations of the people of East Bengal for autonomy. My Foreign Policy Report last year described our efforts in 1971 to promote a peaceful political resolution of the crisis. We opposed not independence, but the outbreak of international war. Throughout the crisis year of 1971, the United States provided two-thirds of the world's relief to East Bengal, and supported the administration of that relief effort by international authorities. Once the issue was settled by the fact of independence, our principal interest was in the rehabilitation and stability of the new state. Our relief effort continued even in the absence of diplomatic relations. The United States formally recognized Bangladesh in April 1972, and established diplomatic relations in May.

Since January 1972, first under United Nations auspices and since May also bilaterally, the United States has contributed over a third of a billion dollars to relief and rehabilitation in Bangladesh. The mobilized efforts and resources of the world forestalled a major famine, and the United States provided more than any other nation. We provided $144 million in PL-480 food and grants for food distribution; $21 million in grants to American voluntary agencies to aid in the resettlement of thousands of Bengalee families; a $35 million grant to the UN Relief Operation Dacca, mainly for food distribution; and $145 million in bilateral grants to the Bangladesh Government for essential commodities and to restore transportation services, power stations, hospitals, and schools, for the rehabilitation of the economy.

The political and economic progress of the new nation is an enormously challenging area to its leaders. Unemployment, inflation, and commodity shortages remained serious in 1972. Civil disorders continued. The Bangladesh Government in 1972 was able to begin effective rehabilitation programs and to begin considering its pressing longer term development needs in cooperation with friendly nations and international lending institutions. We are particularly encouraged by its achievement of a new constitution, a new parliament, and a strong electoral mandate for the leadership of Sheikh Mujibur Rahman. Our interest in Bangladesh is in its stability—it is a test of turmoil there affect other nations—and in its genuine non-alignment and peaceful policies. Instability anywhere in the subcontinent is an invitation to interference from outside.

Bangladesh's success in meeting this challenge will be a most important determinant of the future of peace in South Asia in the years to come.

India. India emerged from the 1971 crisis with new confidence, power, and responsibilities. This fact in itself was a new political reality for the subcontinent and for all nations concerned with South Asia's future. For the nations of that region, the question was how India would use its power. For the nations outside the region, the question was what the relationship of this power would be to that of other powers in the world.

Last year I explained that the United States was prepared for a serious dialogue with India on the future of our relations. We have taken steps in that direction in 1972. The United States respects India as a major country. We are prepared to treat India in accordance with its new stature and responsibilities, on the basis of reciprocity. Because India is a major country, her actions on the world stage necessarily affect us and our interests.

—India's relationships with the major powers are for it to decide, and we have no interest in inhibiting their growth. However, we have a natural concern that India not be locked into exclusive ties with major countries directed against us or against other countries with whom we have relationships which we value.

—There have been serious differences over U.S. policy in Indochina. With the ending of the war, that problem is reduced, and we feel that India, as a chairman of the International Control Commission
for Laos and Cambodia and a country with a stake in Asian peace, has an opportunity to play an important positive role in consolidating a just peace in Indochina.

—India’s policy toward its neighbors on the subcontinent and other countries in nearby parts of Asia is now an important determinant of regional stability, which is of interest to us.

—Other aspects of Indian policy affect us, and we have had our natural concerns. We have expressed unhappiness when Indian leaders have used the United States as a scapegoat in domestic disputes, which does not serve our common objective of improved relations.

Fundamentally, I believe that the United States and a non-aligned India have no significant conflicting interests. The United States has an interest in India’s independence, and a natural preference to see democratic institutions flourish. We share an interest in the success and stability of Bangladesh. As India and Pakistan move toward more normal relations, external military supply loses its relevance to the politics of the subcontinent. In short, the United States wants to see a subcontinent that is independent, progressive, and peaceful. We believe India shares these objectives—and this can be the firm basis of a constructive relationship.

—The United States will not join in any groupings or pursue any policies directed against India. Our normalization of relations with the People’s Republic of China is not directed against India or inconsistent with our desire to enjoy good relations with India. The United States and China declared in the Shanghai Communiqué that we both saw attempts at collusion, hegemony, or spheres of interest as inconsistent with peace in Asia. I believe that on this principle a constructive pattern of relations is possible among all the major countries of Asia, and this is the objective of United States policy.

—Both the United States and India are interested in defining a new basis for a mature economic relationship between us over the longer term. In October 1972, the United States joined in a program to reschedule the Indian debt under the aegis of the World Bank, and in March 1973 we lifted the suspension imposed in December 1971 on the flow of $87.6 million in past development loans. For the future, both sides are now interested in how to move toward Indian self-reliance. This raises the issues of the role of U.S. development assistance, our trade relations, our consultation on world trade and monetary issues that affect Indian interests, and our common interest in promoting economic development on the subcontinent and elsewhere in Asia. A new framework for this economic relationship is a fruitful topic for our dialogue.

Our dialogue has now begun. Secretary Connally, on his visit to New Delhi, Dacca, and Islamabad last July, had frank and important talks on my behalf with Prime Minister Gandhi and her government’s leaders. Indian Finance Minister Chavan consulted with Secretary Shultz in Washington in March 1973 on trade and monetary issues. Ambassador Moynihan’s cordial reception in India was a sign that the passage of time and constructive attitudes on both sides have laid a foundation for a serious improvement in our relations. The recent discussions which Deputy Secretary of State Rush had in New Delhi on his trip to South Asia confirmed this.

We both understand, of course, that the issue is not one of communication or atmosphere. Our differences in 1971 injected a healthy realism and maturity into the U.S.-Indian relationship. We can deal with each other now without sentimentality and without the illusion that because we are both great democracies our foreign policies must be the same. Nor do great nations decide their policies on the ephemeral criterion of popularity. We have our interests and responsibilities; India’s policy choices are for India to make. Good relations will come not from an identity of policies, but from respect for each other’s concerns and a consciousness of the basic interest we share in global peace.

The Smaller Nations of South Asia. The smaller nations of South Asia are part of the regional system, and their well-being and independence are important to it. We do not view them as part of any country’s sphere of influence. They have a right to their independence and non-alignment and a right to remain neutral with respect to the problems of their larger neighbors. Each has its own character, aspirations, and problems, and we seek relationships with each one on the basis of mutual respect.

We welcome the improvement in our relations with Sri Lanka in the past few years. Sri Lanka has strengthened its internal stability, and we hope to maintain and expand our cooperation and to assist Sri Lanka’s progress. The United States joined with many other nations to assist Afghanistan in its recovery from a two-year drought and we will continue our cooperation in its economic development. We have assisted Nepal in its efforts to modernize its agriculture and transport, and we will welcome the opportunity to continue this relationship as our help is wanted. We value our contacts with all the small countries of the region—from Bhutan to the Maldives.
Every country on the subcontinent has a basic right to determine its own destiny without interference or dominance by any other. The United States places a high value on this right, out of conviction and out of our interest in a peaceful regional system. Every major power—now including India, with its new power in the region—has a basic responsibility toward the international system to exercise its power with restraint, so that these smaller nations may look to the future confident of their security and independence.

**Agenda for the Future**

When I visited South Asia in 1969, I said, "I wish to communicate my government's conviction that Asian hands must shape the Asian future." This was not a statement of lack of interest in South Asia; it was, on the contrary, a recognition that America's relationship with Asia would change and that our involvement would require the increasing assumption of responsibility for the Asian future by the people of Asia. The United States role would be one of assistance; we would cooperate, but would not prescribe.

That was a time of significant progress and hope in South Asia. In conditions of peace, the gains from major economic policy decisions and reforms during the 1960's in both India and Pakistan were being consolidated. The full potential of the Green Revolution was beginning to be recognized and in some areas realized. The concepts and practices of economic development and population planning were maturing.

Along with this progress, enormous problems remained on the agenda, and we discussed these at length in both India and Pakistan during my visits: the need for peace and normalization of relations between India and Pakistan; the future direction of Asia, of South Asian nations in relation to the rest of Asia, and of the United States, the Soviet Union, and the People's Republic of China in relation to them; the need for a new relationship between aid donor and aid recipient; and the continuing efforts of governments to meet the demands and aspirations of their people for economic and social development.

The crisis of 1971 interrupted and enormously complicated these tasks—and underlined their urgency. For the United States the crisis of 1971 illustrated again that we did not control the destiny of South Asia—but that we had an important stake in it. The agenda for the future is both the natural outgrowth of the agenda we faced in 1969 and the legacy of the upheaval of 1971.

The first responsibility for building the future of South Asia rests on the leaders and peoples of South Asian nations themselves.

-To a unique degree, the political future of the subcontinent depends on the ability of institutions to meet basic human needs—the needs of the victims of drought, cyclone, flood, war, disease, hunger, and unemployment. No particular political form guarantees that these needs will be met. What is important is the determination to build institutions that can respond to human needs and give diverse elements a stake in a larger community.

-A precondition for the fulfillment of these aspirations is a sense of security and a lessening of tensions between nations on the subcontinent. Each nation must respect the integrity of the other, and each must have the confidence that it can maintain its integrity and choose its future without fear of pressure or dominance from outside.

-The relations between the countries of South Asia and countries outside the region must be consistent with the peace and independence of the subcontinent and the peace of the world. If any outside power acquires an exclusive position in an area of this mass and potential, others will be forced to respond. The major powers all have important relationships there. No South Asian interest is served if those relationships are embroiled in local tensions.

The United States will support, as we can, South Asian efforts to address this agenda.

First, the United States will contribute, where asked and where possible, to meeting human needs and to the process of development. We do this out of the traditional humanitarian concern of the American people, and out of a common interest in supporting the effectiveness and stability of institutions. Where our economic assistance does not serve mutual interests, it should not be provided. Where it does, ways must be found to assure that the form of aid is consistent with the dignity of both the donor and the recipient. The donor must not expect special influence in return; the recipient must acknowledge a mutuality of interest, for only in a relationship of acknowledged common purpose are assistance programs sustainable.

Second, United States policies globally and regionally will support the independence of South Asian nations. Within the region, we shall encourage accommodation and help to promote conditions of security and stability. We see no reason why we cannot have bilateral ties with each country in South Asia consistent with its own aspirations and ours, and not directed against any other nation. We shall gear our relations with other major powers outside the region to encourage policies of restraint and noninterference. This is our responsibility as a great power, and should be theirs.
Third, we shall seek to assure that the concerns of all South Asians are heard in world councils on the issues of global peace and on all issues that affect them. This is not only for their benefit; it is for the general interest in building economic and political relations globally that all have a stake in preserving. As I wrote in my Foreign Policy Report in 1971: “More than ever before in the period since World War II, foreign policy must become the concern of many rather than few. There cannot be a structure of peace unless other nations help to fashion it.” It is in the world interest that South Asia make a positive contribution.

I hope to see South Asia become a region of peace instead of crisis, and a force for peace in the world.

AFRICA

The birth of Africa’s new nations was one of the dramatic features of the postwar period. The assertion of black nationhood in Africa coincided with a new affirmation of black dignity in America, creating a special bond of sympathy between the United States and the new Africa. But in the conditions of the time, the United States was preoccupied with African crises. We assumed we would be drawn into assertive involvement on the continent economically and politically, both because of endemic instability and poverty and the threat of aggressive competition from Communist powers. In an exuberant phase of our own foreign policy, the United States exaggerated its ability to help solve many of Africa’s problems.

Conditions had changed by the time I came into office. The United States clearly needed a more coherent philosophy for a long-term, positive role in Africa’s future. There was no question about America’s continuing commitment to the goals of regional peace, economic development, self-determination, and racial justice in Africa. The issue was to focus seriously on effective ways America could contribute to them in new conditions.

—The stark, long-term problems which Africa faced had not disappeared. But in many countries a new generation of leaders had come into power who knew that rhetoric was no substitute for determined effort to govern effectively and mobilize their peoples to meet the tasks ahead. Given underdevelopment, ethnic rivalries, and the arbitrary boundaries left by the colonial powers, the political cohesion and stability achieved by Africa’s 41 nations was a testimony to African statesmanship. Moreover, African nations had proven to be the best guarantors of their own sovereignty. The continent was not divided into great power spheres of influence nor did it become an arena of great power confrontation.

—In the economic sphere, while the United States was able to maintain the level of its governmental assistance, the most promising sources of capital to finance African development were now trade and private investment. The means of American support for African development would thus necessarily be more diverse, and the first responsibility for mobilizing energies and resources would clearly rest on the Africans themselves.
The yearning for racial justice in the southern half of the continent continued unfulfilled after more than a decade of violence and excessive rhetoric. The task now was to devise new and practical steps toward beneficial change.

Our policy goals in Africa are unchanged: political stability, freedom from great power intervention, and peaceful economic and social development. We seek positive bilateral relations with African nations founded on their self-reliance and independence, and on forms of support which we can sustain over the long term.

Economic Progress in Africa

The principal role America can play in the continent's future is that of support for economic development—one of the primary objectives of all African countries. This is what Africa's leaders have told me they need—and this is the field in which the United States can contribute most effectively.

Our common objective is Africa's self-reliance. African efforts, national and regional, are the key to this accomplishment. We are encouraged by the growth and success of African institutions of regional cooperation. The recent creation of the African Development Fund is a promising example of such African initiatives.

Our interest in supporting Africa's development efforts rests on many bases. A central motive is our humanitarian concern. We also believe that as the quality of life improves on the continent, so will the prospects for regional peace. In addition a developing African economy will mean expanding potential markets for American goods. Moreover, Africa is becoming a major source of energy for the United States and Western Europe. Libya is one of the world's important producers of oil; Nigeria's oil production is increasing; Algerian natural gas is a rapidly growing source of world energy. One fourth of the world's known uranium ore reserves are in Africa. As the West seeks new and alternative sources of energy, African development becomes increasingly important.

There should be no illusions about the barriers to economic progress in Africa. The average per capita Gross National Product of most African nations ranges between $100 and $200 a year. Subsistence agriculture is the principal means of livelihood for much of their population. Malnutrition and disease are widespread. Africa still needs to build its social infrastructure—education and technical skills, public health, new methods of agricultural production, and improved transport links within nations and on a regional scale.

The United States can be proud of its record of direct development assistance to Africa. We have assisted Africa both through bilateral aid and by contributing over 30 percent of the funds provided to Africa by international agencies. In this Administration, in spite of limited resources available for our total foreign aid program, we have increased our assistance to Africa in each of the last three years. In 1972 our bilateral and multilateral aid was $600 million—up from $550 million in 1971 and $450 million in 1970. Our programs have reflected an increasing emphasis on areas of technical assistance that are relevant to broad regional needs, such as food and livestock production and regional transportation systems. Two thousand four hundred Peace Corps volunteers are currently serving in Africa, bringing needed skills and demonstrating America's commitment to helping others.

American direct private investment in Africa has almost doubled in the last four years, reaching a total of $4 billion, and 75 percent of that total is in Africa's developing countries. We have promoted trade and development in Africa through our Overseas Private Investment Corporation (OPIC), which promotes the flow of American capital to the developing world, and through the guarantee and other facilities of the Export-Import Bank, whose long-term loans for African trade reached a record total of $113 million in 1972.

American firms can be a conduit for the transfer of skills, resources, and technology. The productive impact of these enterprises may be the most direct as well as the most reliable outside stimulus to the raising of living standards in developing Africa.

Obviously such private activity must be undertaken in ways consistent with the sovereignty and policies of African governments. We accept the basic principle of the Charter of the Organization of African Unity that the natural and human resources of Africa must be harnessed for the total advancement of African peoples. The specific conditions for private outside investment, and the degree of local participation in control and in profits, should be determined on a fair basis reflecting the interdependence of the relationship. American companies seek no special privileges, and the United States seeks no special advantage. Where investment has been allowed to take root and flourish, economic performance has been impressive. This is the clearest demonstration of a shared interest.

Trade expansion is important to both Africa and the United States. Our two-way trade has grown 30 percent in the last three years, but it is still modest in scale—only about $3.1 billion in 1972. The U.S.-
sponsored African Trade and Development Conference in Washington last October brought together representatives of African Governments, our Government, and the American business community to promote trade with developing Africa. We have an interest in seeing U.S.-African trade expand in a balanced way. Such trade reflects a healthy interdependence which serves the needs both of African progress and of the American economy. Our imports from Africa in 1972 rose to $1.6 billion, a 33 percent increase over the previous year. U.S. exports to Africa, however, declined slightly in 1972.

The future of our trade with Africa and our hopes for its expansion will be affected by still-unresolved problems concerning the international terms of trade. One issue is that of commodity agreements. Understandably, African nations heavily dependent on a single crop like cocoa or coffee are interested in agreements stabilizing the prices of these commodities. The United States as a consuming nation, on the other hand, seeking to control inflation at home, tends to favor free-market determination of price. This is a difficult problem involving divergent interests, and we recognize its vital importance to many African countries. We are committed to addressing the problem cooperatively and are prepared for regular consultation and exchanges of information on market conditions.

Another important issue for the United States is the evolving economic relationship between African nations and the European Community. The growth of preferential arrangements discriminating against competing American products in both European and African markets is naturally of concern to the United States. In this year of important multilateral trade negotiations, the United States will work for solutions that serve the long-term general interest in an open global system of expanding trade.

The United States has continued to respond to many of Africa's needs with humanitarian assistance. This is a reflection of the traditional concern of the American people. For decades, dedicated Americans have worked—through private and voluntary agencies and public programs—to help Africans combat illiteracy, starvation, disease, and the effects of natural disasters. We can take particular pride in our contribution to a major seven-year campaign to control smallpox throughout Central and West Africa. Working with the World Health Organization and twenty African Governments, we helped virtually to eliminate the disease from the area. We are continuing efforts to reduce the prevalence of measles in the area. In the semi-arid states south of the Sahara, where another year of inadequate rainfall threatened large-scale starvation, the United States provided emergency grain above and beyond the quantities already being provided.

Where civil strife has occurred, the United States has responded with generosity and impartiality to the basic human needs of the victims of conflict. In the last year, even before the resumption of diplomatic ties with Sudan, we provided humanitarian aid to the Sudanese Government for the resettlement of refugees in the southern part of that country. The United States contributed to international programs to relieve the suffering of refugees who had fled from Burundi to neighboring countries. When Asians were expelled from Uganda, this country opened its doors to 1,500 of their number.

**Stability in Africa**

There is no area of the world where states are more assertive of their national independence and sovereignty than in Africa. This is understandable because of still fresh memories of colonial experiences and because so many of these states continue to feel vulnerable to outside intervention and internal subversion. In each of my Foreign Policy Reports to Congress I have affirmed that non-interference in African internal affairs is a cardinal principle of United States policy. I reaffirm that principle, and pledge that we shall respect it. The same obligation rests on other outside powers. We believe that restraint should characterize great power conduct. This is in the interest of Africa's secure place in the international system, and in the interest of Africa's stability.

Africa's nations themselves have proven to be the best champions of their right to determine their own future. African leadership has accomplished impressive examples of nation-building.

—Ethiopia, under the Emperor's leadership, has for decades been a symbol of African independence and a leader of institutions of African unity.

—Nigeria has not only survived a bitter civil war; it has gone far toward national reconciliation. Today it is a united, confident nation.

—Strife-torn Congo (Kinshasa) has transformed itself into the new and stable Zaire, with promising prospects for development.

—in Sudan, years of warfare between north and south were ended in 1972 and the nation embarked on a new era of unity and reconstruction.

These achievements by four of Africa's largest and most important states are grounds for confidence in Africa's future.
African nations have also shown their determination to safeguard the peace of their own continent. Out of their great diversity, they have fashioned institutions which have dampened political conflicts and provided mutual support for common purposes. The Organization of African Unity, celebrating its tenth anniversary this year, deserves special note. African states also have worked out bilateral solutions to serious problems. The accord reached in 1972 between Sudan and Ethiopia, which helped settle Sudan's internal conflict, and the understanding reached last year between Morocco and Algeria over their border dispute were two noteworthy achievements.

There also were serious disappointments in 1972. It would be less than candid not to mention them, for I am sure they were disappointments, too, to Africans who are working for peace and justice on the continent.

The situation in Burundi posed a genuine dilemma for us and for African countries. Non-interference in the internal political affairs of other countries is a paramount and indispensable principle of international relations. But countries have a right to take positions of conscience. We would have expected that the first responsibility for taking such positions rested upon the African nations, either individually or collectively. The United States urged African leaders to address the problem of the killings in Burundi. We provided humanitarian assistance, impartially, to those who needed it in Burundi or who fled. All of the African leaders we spoke to voiced their concern to us; some raised it with Burundi's leaders. But ultimately none spoke out when these diplomatic efforts failed.

In Uganda, the attacks on that country's intellectual class, as well as the expulsion of Asians, were deplorable tragedies. The United States has provided refuge for some of the Asians, whose expulsion, whatever the rationale, had racial implications which do no credit or service to Africa.

While events in these two countries were tragic in comparison with the continent's other achievements, the ability of African leaders to maintain independence and territorial integrity while welding ethnic diversity into nationhood remains an undeniable source of real hope for the future.

Southern Africa

The denial of basic rights to southern Africa's black majorities continues to be a concern for the American people because of our belief in self-determination and racial equality.

Our views about South Africa's dehumanizing system of apartheid have been expressed repeatedly by this Administration in the United Nations, in other international forums, and in public statements. As I said in my Foreign Policy Report two years ago, however, "just as we will not condone the violence to human dignity implicit in apartheid, we cannot associate ourselves with those who call for a violent solution to these problems."

We should also recognize that South Africa is a dynamic society with an advanced economy, whose continued growth requires raising the skills and participation of its non-white majority. It is particularly gratifying that some American companies have taken the lead in encouraging this. They recognized that they were in a unique position to upgrade conditions and opportunities for all their employees regardless of race, to the fullest extent possible under South African laws.

In addition, we have sought to maintain contact with all segments of South African society. We do not endorse the racial policies of South Africa's leaders. But we do not believe that isolating them from the influence of the rest of the world is an effective way of encouraging them to follow a course of moderation and to accommodate change.

In the Portuguese territories, we favor self-determination. We have clearly expressed this position in the United Nations, and we shall continue to do so.

The United States continues to enforce—more strictly than many other countries—an embargo on sales of arms to all sides in South Africa and in the Portuguese territories. While we favor change, we do not regard violence as an acceptable formula for human progress.

We do not recognize the regime in power in Rhodesia; as far as permitted by domestic legislation exempting strategic materials, the United States adheres strictly to the United Nations program of economic sanctions. In Namibia, we recognize United Nations jurisdiction and discourage United States private investment.

No one who understands the complex human problems of Southern Africa believes that solutions will come soon or easily. Nor should there be any illusion that the United States can transform the situation, or indeed, that the United States should take upon itself that responsibility. This is the responsibility of the people who live there, not of any outside power.

It is important that all who seek a resolution of these problems address them with seriousness, honesty, and compassion.

The Future of U.S.-African Relations

It is important to us that we have been able to preserve our political ties with this important sector of the Third World in this new period.
My fourteen personal meetings with African leaders during my first term in office were an opportunity to further this process, as were the extensive visits to Africa by the Vice President and the Secretary of State—the first visit by an American Secretary of State to black Africa. A very special event occurred in January 1972—an official trip to Africa by Mrs. Nixon. Her warm reception in Ghana, the Ivory Coast, and Liberia was a symbol of the friendship of Africans toward Americans and was particularly gratifying for that reason. I will have further meetings with African leaders this year. I traveled to Africa four times before becoming President, and I hope to become the first American President to visit black Africa while in office. I intend as President to demonstrate my concern for Africa—as a matter both of personal conviction and of national policy.

American policy toward Africa in the 1970's will reflect not only our friendship but a mature political relationship. The United States and African nations can deal with each other with frankness and mutual understanding. There will be differences of view, and there should be no illusions about this on either side. But the United States will seek bilateral relations with African countries on the basis of sovereign equality and mutual respect.

We have an interest in the independence and nonalignment of African countries. We ask only that they take truly nonaligned positions on world issues and on the roles of the major powers.

Our most tangible contribution to Africa's future is our support for its economic progress. We will continue to emphasize our aid, trade, and investment efforts.

We will continue to encourage evolutionary change in Southern Africa through communication with the peoples of the area and through encouragement of economic progress.

These are practical measures of support. They reflect our conviction that Africa needs concrete measures that have a real impact on its problems. Our approach represents a positive and constructive role for America to play over the long term. It sets goals we can meet. In a new period, this philosophy suits the new maturity of American policy, of African policy, and of our relationship.
PART V

DESIGNING A NEW ECONOMIC SYSTEM

International Economic Policy
INTERNATIONAL ECONOMIC POLICY

International economic forces have a direct bearing on the lives of people in all countries. The monetary, trade, and investment policies of any government strongly affect the jobs, prices, and incomes of its people. They influence conditions in many other countries as well. Inevitably, they have a major impact on international relations.

We have moved far toward resolving political differences through negotiation in recent years. But the peace and stability we seek could be jeopardized by economic conflicts. Such conflicts breed political tensions, weaken security ties, undermine confidence in currencies, disrupt trade, and otherwise rend the fabric of cooperation on which world order depends.

It is imperative therefore that our efforts in the international economic arena be no less energetic, no less imaginative, and no less determined than our efforts to settle other complicated and vitally important problems.

In the past two years we have begun a major effort to reform the international monetary system, improve the mechanisms of world trade, and normalize our commercial relations with the People's Republic of China, the Soviet Union, and the nations of Eastern Europe. We have moved closer to new agreements that will provide greater prosperity for us and for other nations while ensuring that economic relations reinforce traditional ties and contribute to the development of new ones. We have the chance to make economic relations a strong force for strengthening the structure of peace.

The International Economic System

The economic arrangements and institutions created following World War II served well until recent years. But as nations gained strength, points of economic contact between them multiplied and relative positions shifted, their policies had a deeper and broader effect on one another. International institutions and arrangements proved incapable of coping with the major problems that arose. Conflicts, imbalances, divisions, and protectionist tendencies threatened political, security, and economic cooperation. Nations were forced to meet repeated crises but did not get at their causes. In August 1971 we decided to take strong action toward fundamental reform of the world economic system. Our initiatives and proposals in 1972 moved the international community further towards that needed reform.

Our goal is to work with other nations to build a new economic order to meet the world's needs in the last quarter of this century. We believe these new arrangements should achieve six major objectives:

- continued economic progress from which all nations benefit;
- a broader sharing of responsibility commensurate with new economic power relationships and the potential benefits to be gained;
- rules that reflect an equitable balance among the interests of all nations;
- the widest possible consensus for principles of open economic intercourse, orderly economic behavior, and effective economic adjustment;
- improved methods for assuring that these principles are adhered to; and
- sufficient flexibility to allow each nation to operate within agreed standards in ways best suited to its political character, its stage of development, and its economic structure.

The achievement of these objectives can create a new balance between diverse national economic needs and a greater international unity of purpose. Economic relations can become a source of strength and harmony among countries rather than a source of friction.

But these objectives can be achieved only if nations make a strong commitment to them. Close and constructive cooperation among the European Community, Japan, and the United States—the three pillars of the Free World economy—will be essential. Other nations, including the developing countries, Canada, and Australia must play a major role. All have an important stake in an improved economic system. Our country, for example, will import increasing amounts of energy fuels and raw materials and therefore will have to sell more abroad to pay for them. But the stakes go beyond the problems of individual nations. Nations must be determined to channel potential conflict into constructive competition to strengthen their mutual prosperity and the prospects for a more peaceful world order.

International Monetary Policy

In the late 1960's, the monetary system created at Bretton Woods a quarter of a century before was beset by crisis. By mid-1971 it had given rise to serious imbalance and instability which placed intolerable pressures on the United States. My decision of August 15—to suspend dol-
lar convertibility and to impose a ten percent surcharge on imports—set the stage for thoroughgoing reform.

The Smithsonian Agreement of December 1971 moved toward more realistic exchange rates. By making both surplus and deficit nations responsible for balance of payments adjustment, it had important implications for the future. But its greatest significance was as the essential prologue to full reappraisal and reform of the system.

The Agreement was not designed to resolve all the problems. Heavy speculative pressures developed periodically; the substantial deficit continued in America’s balance of payments, and many countries reinforced exchange controls.

Proposals for Reform. Early in 1972 we sought to establish a new forum to examine the problem. The members of the International Monetary Fund established the Committee of Twenty with representatives of both developed and developing nations for this purpose.

After consultations with other governments we took advantage of the annual meeting of the International Monetary Fund/World Bank in September 1972 to put forward our views on needed reform in specific and comprehensive terms.

Of the proposals we put forward at the September meeting, one in particular—improvement of the balance of payments adjustment process—has important foreign policy implications. Because it deals with trade, investment, and monetary flows affecting the lives of people in all nations, balance of payments adjustment is an extremely sensitive issue. Relative competitive positions are particularly vital to the economic well-being of those living in nations that depend substantially on foreign trade. Exchange rates have a major impact on the international competitiveness of nations and thus affect the jobs and incomes of their people. When exchange rates are seriously out of line, the prospect of abrupt change in currency markets creates uncertainty, disrupts trade, and adversely affects the domestic economies of all nations. When one nation believes that another’s adjustment or failure to adjust damages its interests, serious international friction can result.

Too little attention was paid to adjustment under the Bretton Woods System. Nations put a high premium on holding their exchange rates fixed. Remembering the dollar shortage of the early postwar period, many countries came to feel more secure with substantial surpluses and were reluctant to undertake adjustments to reduce them. Even after they had achieved large payments surpluses and growing reserves, some governments continued to help certain export industries and inefficient domestic industries. Yet precisely because of their large surpluses and reserves, balance of payments adjustments should have been made.

Once the psychology of building surpluses and emphasizing exports had taken firm root, countries were concerned with the domestic repercussions of changing course.

There were other deficiencies in the system.

—there was no agreed way to determine when an imbalance should be corrected;
—there were too few means to induce surplus nations to reduce imbalances;
—there were too few methods used to adjust imbalances. In the industrialized countries, domestic fiscal and monetary policies were considered the most appropriate methods, but we and others have learned that such measures are not always adequate or feasible.

Eventually these deficiencies produced intolerable pressures. For a time after World War II the world benefited from American deficits. Others needed our dollars to restore their liquidity, to buy our goods, and to finance expanding trade. When our deficits grew large, other countries urged us to bring our balance of payments into equilibrium and to stop using what they saw as the “special privilege” of having our trading partners hold dollars indefinitely. But our ability to adjust unilaterally was severely limited. Moreover, the effects of doing so by a change in exchange rates, when most transactions were valued in dollars and most reserves were held in dollars, were almost certain to be disruptive. Ironically, countries accumulating dollars they did not want were reluctant to revalue their own currencies for fear of losing their competitive advantage.

By August 1971 dollars held abroad far exceeded U.S. reserve assets. Some countries with large dollar reserves continued to maintain substantial balance of payments surpluses. The world became increasingly skeptical of the ability of the United States to convert outstanding dollars into other reserve assets and doubted the ability of other countries to maintain the exchange value of the dollar at its then current rate. As confidence waned, the rush to sell dollars and buy other currencies accelerated. The stability of the world’s economic system was at stake and the need for reform was clear.

The history of the adjustment problem demonstrates the need for more effective and balanced adjustment machinery. Obviously no nation can fully control its balance of payments. The action or inaction of one country affects the domestic and international economic situations of others. Nations naturally want as much control as possible over their economic policy to meet the social and economic needs of their citizens. But failure to accommodate the interests of others weakens the world economy, to the disadvantage of all. Our proposals would give each nation maximum discretion in choosing ways to adjust its payments imbalance, but would
give the international community the means to ensure effective adjustment.

We believe governments should employ a variety of methods to achieve balance of payments adjustment. They should continue to use fiscal and monetary policy that fits their circumstances. Beyond this, they should have more latitude to adjust the international price of their currency when they face a payments imbalance. For countries choosing to maintain set par values for their currencies, greater flexibility could be achieved by allowing a “band” of permissible exchange rate fluctuation around parity wider than that under Bretton Woods. Under agreed conditions, countries might sometimes seek adjustment by a transitional float to a new par value, by a float on an indefinite basis, or by a move directly to a new set rate. All three techniques have been used in recent realignments.

Countries in surplus should also use trade and investment liberalization to contribute to adjustment. In exceptional circumstances, temporary trade restrictions may be an appropriate supplementary adjustment action for deficit countries. If imports are to be restrained for this purpose, it should be by barriers such as a surcharge rather than by quotas. Surplus countries also can contribute importantly to adjustment by increasing the amount of foreign aid which they give without requiring purchases from them.

We believe that criteria should be established which will identify when an adjustment is needed. The need should be demonstrated before an imbalance becomes so great that the adjustment to correct it would pose serious difficulties either domestically or internationally for the nation involved. These criteria should apply even-handedly to surplus and deficit nations alike. In our view the disproportionate gain or loss in a country’s reserves should be the primary indicator that balance of payments adjustment is needed. If in a particular case a country believed the reserve indicator to be misleading and the adjustment inappropriate, a multilateral review could help determine the proper action. But if that review did not override the indicator and if the country did not take action, the international community should apply pressures and inducements to bring it about.

Recent Events. Repeated crises over recent years have clearly demonstrated the need for closer international cooperation to speed progress toward monetary reform and improved payments equilibrium. In February and March of 1973, the United States and several other countries jointly acted to deal with the latest in a series of major crises. The high degree of international cooperation that marked the handling of these critical monetary issues can produce the fundamental reforms the system requires. We hope the outlines of a new approach can be agreed upon at the International Monetary Fund meeting in Nairobi this September, and we will work closely with others to attain that objective.

Foreign Trade

In determining their trade policies, governments must balance the desires of all their people. Some workers, farmers, and businessmen want greater access to foreign markets; others want to limit imports; and consumers want the widest variety of goods at the lowest possible prices.

Recent problems in the international trading system reflect in part the high priority some countries place on promoting certain exports and protecting favored producers. Over-emphasis by some countries on promoting certain exports has forced their own consumers to pay more for these products by reducing their availability at home and has sometimes led to disruptive increases in imports in the markets of other nations. Over-emphasis by countries on protection has penalized their domestic consumers and limited exports of other nations.

When such excesses by one nation occur, adversely affected groups in other countries demand retaliation or protection. These demands are particularly hard for governments to deal with in the present climate. International rules adopted in the 1940’s to prevent or solve these and other problems have often been ignored. In some cases they do not meet contemporary needs. Nations on occasion have felt they had no choice but to accommodate particular domestic interests in ways that not only further complicate the international problem but also damage other domestic interests. The result has been an erosion of confidence in the trading system, and economic and political friction.

The U.S. Response. Balancing domestic and foreign interests in this environment has been one of the most difficult problems faced by the United States. Early in 1972 the United States secured agreement from Japan to reduce trade barriers on a variety of industrial and farm products. At our meeting in Honolulu later that year and in subsequent talks as well, Japan agreed to take additional steps to boost imports of American products and to liberalize its internal distribution system. Although these actions have benefited American exporters, they have not been adequate and we are seeking further progress in these areas. In talks
with our trading partners and in the forum provided under the General Agreement on Tariffs and Trade we are pressing for solutions to other problems including compensation for the impairment of our trade interests as a result of enlargement of the European Community and its new arrangements with other European countries.

Special problems caused by rapidly rising steel and textile imports into the United States have been eased by export restraint agreements reached with major foreign producers. Enforcement of anti-dumping and countervailing duty laws, which protect American workers and industry from injury due to unfair import competition, has improved markedly.

We have also taken steps to cut inflation and to benefit American consumers. We suspended import quotas on meats and relaxed them on certain dairy products. The entire oil import program was recently restructured to help ensure adequate supplies for the domestic market. These measures also have helped foreign exporters. Moreover, we have eliminated export subsidies on farm products, contributing to a sounder balance between exports and home supplies and to a better world agricultural trading order.

But despite the actions we and other nations have taken to meet domestic needs and to help establish more sustainable trade arrangements, problems and grievances remain. Although farmers, workers, businessmen, and consumers together benefit overwhelmingly from foreign trade, trade issues continue to be the subject of intense debate. In some cases, pressures such issues generate prevent nations from reducing trade barriers even though to do so would be in their overall interest. In other cases, they produce pressures for new barriers that adversely affect both their own domestic consumers and other nations.

In the United States, these pressures—magnified by a period of high unemployment and a large payments deficit—have created demands for erecting high barriers against foreign competition. For both domestic and international reasons I do not favor this course. This approach might ease a few problems, but it would cause many more of a serious and permanent nature. Our consumers would have to pay higher prices. The many American industries that depend on imported materials and components would be seriously hurt and their products would become less competitive. This course could also trigger an escalation of international trade barriers which would cut American industrial and agricultural exports and strike at the roots of international cooperation and prosperity. The collective result would be highly damaging to our domestic well-being and to our foreign policy interests. We have agreed with our trading partners to pursue a wiser and better alternative.

The Need for a Multilateral Response. The solution to the problems we face lies in a major international effort to develop an improved world trading system. We must build a system which allows nations to satisfy their domestic needs while participating fully in mutual gains from trade. Such a system should expand export opportunities and give consumers the benefit of less expensive and more varied goods. It should establish a set of rules under which a country could limit imports temporarily where necessary to give workers and industries time to adjust smoothly to sudden disruptive increases in foreign competition. And it should bring about an improvement in international trading rules and arrangements. Together these will enable us to better meet the needs of American agriculture, labor, business, and consumers.

The international commitment to multilateral trade negotiations provides the opportunity to achieve these goals. In February 1972, the United States, the European Community, and Japan agreed to "initiate and actively support multilateral and comprehensive negotiations in the framework of GATT beginning in 1973 . . . with a view to the expansion and greater liberalization of world trade . . . on the basis of mutual advantage and mutual commitment with overall reciprocity." At Honolulu, Prime Minister Tanaka and I reaffirmed that commitment. In October leaders of the enlarged European Community reemphasized their pledge to work toward a reduction of tariff and non-tariff barriers, expressing the hope that the negotiations could be concluded in 1975. Responding to these expressions, I sent new trade legislation to the Congress and announced my intention to work toward the timetable suggested by the European leaders.

The Task of Negotiations. We now have the chance to move from confrontation to negotiation in the field of trade. The negotiating process holds the greatest hope for reducing barriers to our exports, for resolving trade differences with friends, and for developing the improved trading system the world needs.

The impending negotiations can substantially lower world tariff barriers. But we do not look upon this effort merely as another round of tariff reductions—an area in which much progress has already been made. They also provide a major opportunity to settle a variety of other trade issues. Most nations employ a variety of non-tariff trade barriers. A number of these are erected for social, political, and security reasons. Others exist because of government procurement, health, and safety standards. It will be hard to eliminate these barriers or reduce their trade distorting effects without affecting the domestic interests that fostered
them. But minimizing their adverse trade effects will open broad new areas for international commerce.

The majority of the world's people, in all nations, will benefit from more open agricultural trade and the resulting lower cost and increased availability of farm products. It is particularly important to the United States to remove the barriers which stand in the way of expanded agricultural trade. We are efficient producers of many farm commodities, and our farm policies are predicated on a more open, more market-oriented agricultural trading system.

Preferential trading arrangements, which discriminate against the trade of those who do not participate in them, cannot be reconciled with the Most Favored Nation principle, the basic tenet of world trade. In certain cases we have actively encouraged closer regional political and economic relations. But close relations, where the objective is not a fuller economic and political union, need not include discriminatory trade arrangements. Where they do, we believe steps should be taken to reduce or eliminate their adverse trade effects. Regional arrangements that are part of a broader economic or political unity must be distinguished from preferential arrangements that primarily divert trade from other countries.

We also need a multilateral agreement on safeguards that nations can apply for a limited time to permit smooth adjustment to rapid increases in imports. As we pursue a more open trading world for the benefit of all, it is self-defeating to ignore the fact that adjustment to more open competition may be difficult for some. Effective procedures to ease this process are the most realistic way to ensure that open trade will bring the benefits we expect.

We also need better means to avoid trade conflicts and to settle them in an orderly way when they develop. One nation's efforts to promote some segment of its economy or to protect it against external competition can significantly damage other countries. One way to avoid the resulting frictions is to agree on more effective rules for trade. Another is frequent consultations so that nations consider the views of their trading partners before making decisions and assure that problems that are faced promptly and candidly. At a time when we are moving from confrontation to negotiation in other areas, we need new trading arrangements and rules to solve trade problems in the same spirit.

Principal for Success. The coming trade negotiations will have the best chance of achieving their major objectives if they are based on sound political and economic principles:

- Negotiations should seek maximum feasible reliance on market forces as a means of guiding trade. Such arrangements will allow us to sell the goods we produce most competitively and to buy goods others produce most competitively, increasing the earnings of workers and farmers and giving the consumer more for his money. This is the most efficient way of using each nation's resources; it avoids the vicious circle of protection and counterprotection. The temptation to dwell on the "cost" of particular concessions must be avoided in favor of the overall objective of lessening trade barriers and improving the world trading system. The benefits that will accrue to all nations—not only economically but also in their broader relationships—should be the guiding objective.

- Negotiations should significantly reduce barriers in all trade sectors. Only all-inclusive negotiations permit a full weighing of broader national interests of participating countries. From our point of view, it is especially important that the negotiations reduce barriers in certain areas of agricultural trade. Other nations have areas in which they want similar results. To pay less attention to one nation's priorities will make that nation less inclined to meet the priority needs of others.

Prospects for the Future. Over the past year this Administration has stressed the importance of creating a more open and equitable trading order. We have worked to get other nations to pledge full cooperation in this effort. We do not expect the coming negotiations to solve all trade problems, but they can successfully launch us toward that goal. Last October's declaration by leaders of the European Community and similar statements by Japanese leaders demonstrated their dedication to this effort. Other nations are similarly committed. But we must seize the moment, or the momentum that has developed could be lost.

I recently sent the Congress my proposed Trade Reform Act of 1973. This legislation would give the President authority to negotiate a system that will increase world trade, give the United States an opportunity to share fairly in that increase, and assure that trade becomes a source of stability and cooperation among nations. Meanwhile we are dealing with individual trade problems using, where available, the procedures of the General Agreement on Tariffs and Trade. Effective action on such matters could clear up some existing differences and improve the climate for broader negotiations. We look to other nations to work with us in forthcoming negotiations in a test of joint statesmanship to bring about a world trading order which serves the needs of all.
The Developing Nations

Despite a record of significant accomplishment—including an average annual increase in economic growth of more than 5.5 percent in the last decade, the success of the Green Revolution, and rapid advances in health and education—hundreds of millions of people in the developing countries still exist in conditions of extreme hunger, poverty, and disease. Basic humanitarian considerations call on us to assist these countries in improving the lives of their people. But we also have a major economic and political interest in the growth and stability of these countries and in their active cooperation.

Many of these countries have energy resources and raw materials that we will need in significantly increasing amounts. Some of them have become fast-growing markets for our exports. Almost one-third of U.S. exports went to developing countries in 1972 and the future growth of these countries will expand our markets.

But an increased pace of development is essential. Unless substantial progress occurs—through efforts by developed and developing nations alike—the stability of many countries and regions can be jeopardized as essential needs of people go unsatisfied.

There has been a growing tendency to question our commitment to help developing nations. Attracted to rapid solutions and underestimating the time and effort needed to stimulate development, Americans are frustrated by the slow pace of visible progress. But, our future economic and political needs will be far better served by actively cooperating with the developing countries for our mutual benefit than by neglecting their needs. We must pursue a realistic policy of development assistance and find better ways of dealing with the trade and monetary interests of developing nations.

Foreign Assistance. I have long been convinced that we needed major improvements in our foreign assistance program. Numerous statements in committees responsible for aid legislation and by individual Congressmen suggest that broad support exists for a modified approach to aid.

We have already improved our aid system in several ways. Bilateral aid is now focused on a few key areas—such as population planning, agriculture, health, and education—in which the Agency for International Development (AID) has a high degree of experience and expertise. Development assistance has been separated organizationally from assistance given for security reasons. A new International Narcotics Control Assistance Program is helping developing countries improve their ability to control the production and flow of illicit narcotics. And we have strengthened our capacity to provide urgently needed emergency assistance to countries that have suffered disasters.

Effective coordination of aid has increased its efficiency and benefits for recipients. AID is increasingly coordinating its programs with those of other nations and international bodies. In cooperation with other nations, we have provided short-term relief to countries whose debt burden was so overwhelming that it threatened their growth and stability.

We deal with recipient countries as partners recognizing their growing expertise and their ability to determine their own development needs. While we help in the planning, funding, and monitoring of development programs, we no longer take the lead in setting priorities or in detailed execution.

We have made substantial contributions to development assistance through international institutions such as the World Bank, the Inter-American Development Bank, the Asian Development Bank, and the United Nations Development Program. Because of their multilateral and non-political character, these institutions frequently can be more rigorous and frank on issues of development policy with recipient states. They have done an outstanding job in providing the framework for coordinating donor contributions and in assuming their appropriate role of leadership in the development assistance effort. The funds I have requested for these institutions and for our bilateral programs are essential to the peoples of the developing countries and to the structure of our relationship with the developing world.

Development Through Trade. While foreign assistance is important, developing nations have to earn by far the largest part of their foreign exchange through trade. Traditionally, they have exported mainly raw materials, though manufactured goods have increasing potential for expansion. They must export these goods in increasing amounts in order to buy the machinery and other products necessary for their future development. Recognizing this fact, we have included in our proposed trade legislation a provision for generalized tariff preferences which would allow many products of the developing countries to enter the U.S., as they already enter Europe and Japan, without duty.

In the 19th and early 20th Centuries there was considerable friction among developed nations as a result of their discriminatory commercial arrangements with the poorer areas of the world. Today's special preferential arrangements are also a source of such friction. And they run counter to the interests of many developing countries. We seek a system that improves developing country access to the markets of the developed
countries without discrimination and without restricted preferential arrangements. Our legislation reflects this approach.

In the forthcoming trade negotiations, developing countries have an opportunity to help create a general improvement of trade conditions. Most of them want greater freedom in agricultural trade and increased exports to developed countries of their manufactured and semi-manufactured goods. We and the developing countries which share these objectives have an interest in working together to achieve them. And, reductions in the import barriers of developing countries could benefit their economies and help make the system work more effectively.

**Monetary Policy and the Developing Nations.** The developing countries have a major interest in the reform of the world's monetary system. Their trade, exchange reserves, and debt positions are directly affected by monetary events. Yet in the past they have had little voice in monetary negotiations. The inclusion of nine representatives of the developing nations on the Committee of Twenty on international monetary reform is a significant and positive step. We are working closely with these nations to achieve reforms that serve our mutual interests.

**Future Issues**

1972 began an era of negotiation and reform in international economic policy. We laid the groundwork for a thorough restructuring of the international economy and opened doors to new commercial relations with the Communist world. The critical task facing us now is to carry forward the work of reordering the world economy to make it more responsive to the needs and realities of our time. We must develop new rules for international economic activity that reflect changing circumstances. Nations must share the responsibility for making the system work so that all can benefit from a more open and equitable world economy. All nations must work together cooperatively so that we can move into a new era of broadly shared prosperity.

Our goals will be to:

- carry forward negotiations in the Committee of Twenty to devise a monetary system that meets the needs of all nations;
- begin multilateral negotiations aimed at substantial reduction of barriers to open trade and improvement of the trading system;
- widen public understanding of our international economic goals and obtain necessary legislative authority for our active participation in building a stronger world economy;
- expand cooperation with the lower income countries to help their development efforts through improved aid policies and by opening the international system to their more effective participation;
- continue to broaden economic exchanges with the Soviet Union, the People's Republic of China, and the nations of Eastern Europe.

We must take advantage of the foundation laid in 1972 to build an international economic structure that will promote healthy competition, enhance prosperity for us and other countries, and contribute to a peaceful world order in the decades to come.
PART VI

MAINTAINING SECURITY

Defense Policy
Arms Control
DEFENSE POLICY

Of all the changes in the international situation over the postwar period discussed in this Report, one of the most fundamental has been the shift in our strategic position.

The Challenge We Faced

When I entered office we faced a situation unique in American postwar experience. An era was behind us. In the immediate aftermath of World War II challenges to our security could be met with the assurance that our strategic nuclear position was overwhelmingly superior. By January 1969, the United States no longer enjoyed this strategic preponderance.

The Soviet Union had embarked on a formidable expansion of its nuclear arsenal. We could chart with some certainty when the Soviet Union would surpass us in numbers of intercontinental and submarine launched ballistic missiles; we could also project when they could close the technological gap in strategic weapons. Our own offensive building program had virtually ceased, as we had shifted our effort to qualitative improvements. We had developed a concept for ballistic missile defense of our territory, but had no active deployment. We faced a negotiation on strategic arms controls, but had only begun to analyze the relationship to strategic weapons decisions.

At the same time, our spending for defense had grown substantially. Almost all the increases, however, had been absorbed by the war in Vietnam. The costs of new weapons were escalating, as were the expenses of maintaining the men of our armed forces. In addition, we were bearing burdens abroad for the common defense that seemed out of proportion to those borne by our allies. More than a million Americans were stationed overseas, and our reserves at home were minimal.

Yet, I found that our strategic doctrine called for an American capability to fight in two major theaters simultaneously. The confrontation atmosphere of the Cold War persisted in both Europe and Asia. But the international environment after 25 years suggested new opportunities for diplomacy and, accordingly, for adjustments in military planning. The rigidity of the confrontation between East and West was easing, and the conduct of nations could no longer be viewed in the simple bipolar context of military blocs.

The need for an urgent reexamination of our national security policy and programs was obvious. There were four overriding questions:

- What doctrine was appropriate for our strategic forces in an era when the threat of massive retaliation alone was no longer credible in all circumstances and decisive nuclear superiority was probably unattainable?
- What should the interrelationship between the programs required for maintaining our strength and our proposals for limiting strategic arms through negotiations?
- How could we simultaneously satisfy pressing domestic needs, meet our responsibilities in Vietnam, and maintain the capabilities of our other forces in a period when non-nuclear challenges were an important dimension of the security problem?
- How could we, in coordination with our allies, strengthen our mutual defense in a manner that retained their confidence in our reliability but permitted them to play a more prominent role?

Early in my first term, I made a series of decisions that resulted in a new concept of national security, reflected in the Nixon Doctrine.

In strategic nuclear policy, we adopted the doctrine of sufficiency. We could no longer be complacent about the strategic status quo merely because we could cause a certain level of destruction in response to an attack. We therefore began to develop a sounder and more flexible doctrine for our forces that would provide other retaliatory options besides a direct attack on millions of people.

Concurrently, in order to reduce our vulnerability and to compensate for the Soviet buildup, we launched a program to modernize our strategic forces. We continued to convert our land and sea-based missiles to multiple independently targetable warheads (MIRVs). Thus, our missiles which would survive an attack would be able in retaliation to strike their targets with greater assurance of eluding defenses. We laid plans for a new long-range missile and submarine that would reduce vulnerability by allowing operation in a larger ocean area while still in range of targets. In addition, to increase the survivability of our retaliatory forces, we began planning a new strategic bomber to replace the aging B-52 force. We also initiated the Safeguard anti-ballistic missile (ABM) program to protect our land-based retaliatory forces.

Each of these decisions was taken, however, with the full understanding that, as an integral part of our national security policy, we also would seriously pursue negotiations for arms limitations. We would offer the Soviet Union the opportunity to reach agreement on measures that would enhance the security of both sides.
Finally, we began to assess our security obligations to determine how our alliance defense posture might be strengthened through mutual effort. We examined whether U.S. forces in some forward areas might be reduced; in those regions where security required a strong and continuing American presence, as in Europe, we and our allies initiated new programs for sharing the defense burden.

In the past four years we have laid a solid foundation for safeguarding American security for the remainder of this decade. We are now entering a period of promising prospects for increasing international stability. But the outcome is by no means guaranteed. We are still in a challenging period of transition. We still face difficult decisions.

There have been a number of positive developments since 1969. Unprecedented progress has been made in strategic arms controls. For the first time in two decades there is a genuine possibility of mutual and balanced force reductions in Europe. Our allies in Western Europe and Asia have become stronger, both economically and militarily, and are contributing more to mutual defense. Tensions in these two regions have been easing. A Vietnam Peace Agreement has been signed and our force of a half million men has returned home.

On the other hand, we cannot ignore the negative trends that persist. Even though Vietnam is entering a new phase, conflict remains in Indochina and ferment persists in other key areas of the world such as the Middle East where the interests of major powers are involved. Modern weapons are still being delivered to areas of great instability. The Soviet Union is strengthening its armed forces in every major category, including those in which the United States traditionally has had a substantial margin of superiority. A Soviet military presence now has been established in many strategic areas of the world.

As we determine the requirements for our defense in these circumstances and approach ongoing arms control negotiations, five factors of the current situation are of particular importance:

—There is approximate parity between the strategic forces of the United States and the Soviet Union. Soviet numerical advantages are offset by superior American technology.

—In such an era greater reliance must be placed on non-nuclear forces.

—Technological change while creating new opportunities also poses a potential threat to existing strategic stability.

—Manpower costs have increased substantially. They now absorb more than 56 percent of our entire defense budget, compared with 42 percent a decade ago. Now that we have chosen to rely on all-volunteer forces, the proportion devoted to manpower is not likely to decrease.

—The costs of increasingly complex modern weapons are also spiraling, further constraining our ability to maintain conventional force levels.

At the same time, the political climate at home has changed. In spite of the adjustments we have already made to new conditions, we face intensified pressures for further withdrawals of our deployed forces and for greater reductions. In the post-Vietnam environment, some Americans seem eager to return to the prevalent philosophy of the 1930's, and resist U.S. involvement in world affairs. The consensus which sustained our national commitment to a strong American military posture over the postwar period is no longer unchallenged.

The emerging global order, however, has neither exact historical parallels nor a predestined outcome. American actions will be a decisive determinant of its shape. In a period of developing detente, it is easy to be lulled into a false sense of security. Threats are less blatant; the temptation is greater to make unilateral reductions and neglect the realities of existing forces of potential adversaries.

In such a fluid period we have no responsible choice but to remain alert to the possibility that the current trend toward detente with the Soviet Union and China may not prove durable. We have only begun an area of negotiations. We must not now ignore fundamental changes in the balance of forces or in the potential strength of our adversaries in an era of rapid change. To do so would only tempt challenges to our security interests and jeopardize chances for achieving greater stability through further agreements.

Military adequacy is never permanently guaranteed. To maintain security requires a continuing effort. But faced with escalating costs of manpower and weapons and competing domestic demands, we must insure that defense spending is based on a realistic assessment of our security requirements, and we must endeavor to reduce expenditures through more effective management.

There is, however, an irreducible minimum below which we cannot go without jeopardizing the very foundations of our diplomacy, our interests, and our national security. This Nation cannot afford the cost of weakness. Our strength is an essential stabilizing element in a world of turmoil and change. Our friends rely on it; our adversaries respect it. It is the essential underpinning for our diplomacy, designed to increase international understanding and to lessen the risks of war.
While taking the necessary steps to maintain the sufficiency of our strength, we are seeking a sound basis for limiting arms competition. Both elements are fundamental to a national defense that insures a more stable structure of peace.

**Strategic Policy**

Deterrence of war is the primary goal of our strategic policy and the principal function of our nuclear forces. Thus, our objectives continue to be:

- to deter all-out attack on the United States or its allies;
- to face any potential aggressor contemplating less than all-out attack with unacceptable risks; and
- to maintain a stable political environment within which the threat of aggression or coercion against the United States or its allies is minimized.

Strategic forces are the central component of our military posture. It is on them that our security and that of our allies is most heavily dependent.

While our goals are unchanged, there have been fundamental changes in the strategic military environment. Approximate nuclear parity between the United States and the Soviet Union is now a strategic reality and has been confirmed in strategic arms control agreements. Certain technological advances, however, could become destabilizing. So it is, therefore, imperative that we continue to assess the adequacy of our strategic policy and programs in light of advances made by potential adversaries.

The task is greatly complicated by the long lead time required to make significant changes in these forces. Because of the extended development phase for new systems, a lengthy period could pass before a nation perceived that it was falling dangerously behind. From that point, it would require another considerable period before the imbalance could be corrected.

We must plan now to have a strategic force that will be adequate to meet potential threats of the next decade. We must develop our programs in the context of an uncertain world situation and accelerating technological possibilities.

During the 1960's missiles were relatively inaccurate and single warheads were the rule. Today, accuracies have improved significantly and missiles carry multiple warheads that can be independently targeted. In the present environment it would be misleading to measure sufficiency only by calculating destructive power in megatonnage. The quality of weapons systems, and their survivability, are vital determinants of sufficiency.

The SALT Agreement of May 1972 halted the rapid numerical growth of Soviet strategic offensive systems. Within the limits of the current SALT Agreement, however, strategic modernization programs may continue. We must, therefore, carefully assess the efforts the Soviets are making to improve their capabilities and must pace our programs accordingly.

- At least three new Soviet Intercontinental Ballistic Missiles (ICBMs) are being developed: a new, very large missile which could have greater capability than the SS-9, which is now the largest operational Soviet missile; a smaller ICBM, possibly intended as a follow-on to the SS-11 missile; and a solid propellant ICBM, probably designed to replace the SS-13 or possibly to provide a mobile capability.
- These new missiles may well carry MIRVs with accuracies which would increase the vulnerability of our land-based missiles, thus jeopardizing the current strategic stability.
- The Soviet Union has begun deployment of a new submarine capable of submerged launch of a 4,000-mile-range missile.
- The Soviet ABM research and development program continues unabated.

If present trends continue and we do not take remedial steps, the forces which we currently rely upon to survive an attack and to retaliate could be more vulnerable. At some time in the future we could face a situation in which during a crisis there could be a premium to the side that initiated nuclear war. This would be an unstable and dangerous strategic relationship. Such a strategic environment is unacceptable.

In the late 1960's the effectiveness of American strategic nuclear forces was measured by a criterion known as "assured destruction." This concept assumed that deterrence could be maintained if it were clear that following a large-scale nuclear strike the United States could retaliate and inflict an unacceptable level of damage on the population and industry of the attacker.

In the 1970's strategic doctrine must meet different criteria. While the specter of an unacceptable response is fundamental to deterrence, the ability to kill tens of millions of people is not the only or necessarily the most effective deterrent to every challenge. Such a drastic course can be credibly reserved only for the most overwhelming threats to national survival. Moreover, the measurement of the effectiveness of our strategic forces in terms of numbers of dead is inconsistent with American values.
A different strategic doctrine is required in this decade when potential adversaries possess large and more flexible nuclear forces. The threat of an all-out nuclear response involving the cities of both sides might not be as credible a deterrent as it was in the 1960s. An aggressor, in the unlikely event of nuclear war, might choose to employ nuclear weapons selectively and in limited numbers for limited objectives. No President should ever be in the position where his only option in meeting such aggression is an all-out nuclear response. To deal with a wide range of possible hostile actions, the President must maintain a broad choice of options.

Credible deterrence in the 1970s requires greater flexibility:
- Lack of flexibility on our part could tempt an aggressor to use nuclear weapons in a limited way in a crisis. If the United States has the ability to use its forces in a controlled way, the likelihood of nuclear response would be more credible, thereby making deterrence more effective and the initial use of nuclear weapons by an opponent less likely.
- Therefore, to extend deterrence over a wider spectrum of possible contingencies we should ensure that our forces are capable of executing a range of options.
- If war occurs—and there is no way we can absolutely guarantee that it will not—we should have means of preventing escalation while convincing an opponent of the futility of continued aggression.

Greater flexibility in the employment of our forces does not necessitate any drastic change in our nuclear programs. The fundamental objective of military forces remains deterrence. Potential aggressors must be aware that the United States will continue to have both the resolve and the capacity to act in the face of aggression in all circumstances.

**Strategic Programs**

Our weapons programs are planned within the framework of this strategic policy. We must also consider Soviet strategic developments, arms limitations, and the potential for technological change. In light of the current strategic situation, I have determined that the U.S. must continue its modernization programs to ensure the future sufficiency of our nuclear forces.

- We are therefore improving our ICBM force. Silos for Minuteman missiles are being hardened, and 550 Minuteman III missiles with multiple independently targeted warheads will be deployed by the mid-1970s.
- Development of a new strategic submarine, the Trident, has been undertaken to provide a highly survivable replacement for our current ballistic missile submarines.
- We are developing a generation of submarine launched missiles with substantially greater range. With these new missiles our Trident and Poseidon submarines will be able to operate in a much larger ocean area while still within range of targets, and thus will be less vulnerable.
- The survivability of B-52 bombers has been increased by decreasing the time required for take-off on warning of an attack and by developing new basing concepts. This will reduce the threat from the growing force of Soviet ballistic missile submarines.
- We have also begun engineering development of the B-1 bomber as a potential replacement for the aging B-52s. The B-1 would maintain our bomber force as an important element in our mix of retaliatory forces, providing assurance against technological breakthroughs, complicating an enemy's offensive and defensive planning, and ensuring flexibility of response.
- The ABM facility at Grand Forks, North Dakota, is being completed. This installation will give us operational ABM experience while directly enhancing the survivability of Minuteman ICBMs. We will also continue our planning for the Washington, D.C. ABM site in order to provide additional security for the major control center of our forces.
- Similarly, we are improving facilities for command and communications to control our responses in crisis situations.

We cannot prudently ignore the long-term strategic requirements of our security. But at the same time we are conscious of a serious responsibility—to preserve an environment which enhances stability and encourages further efforts to limit nuclear arms. Our forces, therefore, are not designed to provide a capability for a disarming first strike. Moreover, our programs are not so substantial that our objectives could be misunderstood, conceivably spurring a Soviet building cycle. There is not necessarily a direct relationship between every change in the strategic forces of the two sides. Some changes reflect an action-reaction cycle in the
strategic arms programs of the two nations. In other cases, the similarity between American and Soviet forces results simply from the fact that roughly the same technologies are employed.

This year we will continue to assess how to deal more effectively with the implications of parity and to guard against unanticipated technological breakthroughs. At the same time, our efforts will reflect the essential defensive and deterrent purposes of our doctrine and forces.

**General Purpose Forces**

In a strategic environment of approximate parity, nuclear weapons alone are less likely to deter the full range of possible conflicts. Our success in negotiating strategic limitations has thus increased the importance of maintaining other deterrent forces capable of coping with a variety of challenges.

In recent years conventional forces have played a critical role in numerous conflicts involving great power interests, including Arab-Israeli and Jordanian-Syrian fighting in the Middle East; The India-Pakistan war; and the North Vietnamese invasion of Laos, Cambodia, and South Vietnam.

The United States cannot protect its national interests, or support those of its allies, or meet its responsibilities for helping safeguard international peace, without the ability to deploy forces abroad. In the Jordan crisis of 1970, for example, our forces helped stabilize an explosive situation. When warnings went unheeded and the North Vietnamese launched an all-out invasion of the South in the spring of 1972, our determination to act decisively with conventional forces was tested. The bombing and mining of North Vietnam complemented the defensive action of our South Vietnamese allies on the battlefield and provided a convincing incentive for serious negotiations. In both instances the combination of local superiority and a strong U.S. defense posture decreased the likelihood of challenge to these forces.

When I came into office, I ordered a reassessment of the rationale upon which our conventional force planning was based. Our analysis concluded that a coordinated attack by the major Communist powers simultaneously in both Europe and Asia was unlikely. We determined, however, that our forces should still be adequate to meet a major threat in either Europe or Asia and to cope simultaneously with a lesser contingency elsewhere.

The specific potential threats we face in Asia or Europe continue to be the primary determinants of the size, composition, and disposition of our general purpose forces. Our principal forward deployments are in these areas where, supplementing the forces of our allies, they help counterbalance the strong forces of potential adversaries. The strength of the defenses of Western Europe remains the cornerstone of our own security posture. The American presence in Europe and Asia is essential to the sense of security and confidence of our friends which underpins all our common endeavors— including our joint efforts in the common defense. Our forces are deployed to provide a responsive and efficient posture against likely threats.

But planning based on the threats in these two areas alone is not sufficient. We also need forces to deal with lesser contingencies that pose a threat to our interests—a capability not necessarily provided by units positioned for a major conflict overseas.

Moreover, even in a period of developing detente, we cannot ignore the reality of a modern Soviet navy operating increasingly in the Caribbean, Indian Ocean, the Mediterranean and along the coasts of Africa; newly established Soviet security commitments, support facilities, and communications networks in key areas of the Third World; or increasing Soviet arms programs in these areas.

The credibility of our force posture has two basic determinants; overall size and the level of forward deployments. Our general purpose forces are now substantially below the peak levels of the Vietnam buildup and well below the levels maintained prior to the Vietnam war. This is the result of changing assessments of security requirements, our success in developing allied capabilities, and the increasing costs of replacing obsolescent systems and maintaining existing forces.

Our ground, naval, and air forces have now reached the absolute minimum necessary to meet our commitments and provide a credible conventional deterrent in an age of strategic parity. Compared to levels in June 1964, we have a third fewer combat ships, 37 fewer aircraft squadrons and 3 and ½ fewer ground divisions.