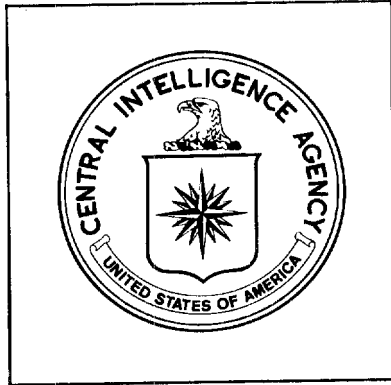


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## International Issues

# REGIONAL AND POLITICAL ANALYSIS

State Dept. review completed

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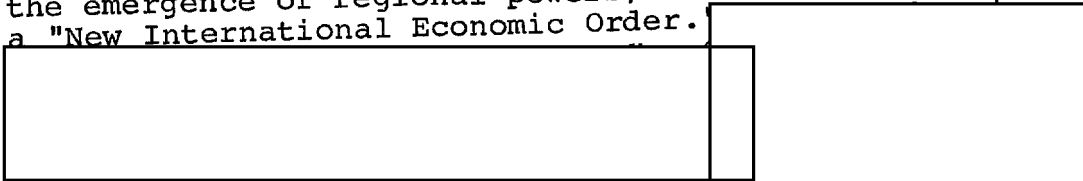
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The International Issues Division of the recently constituted Office of Regional and Political Analysis is the successor organization to the International Functional Staff of the Office of Political Research and the International Organizations unit of the Office of Current Intelligence. The division seeks to support the policy-making community via multidisciplinary analyses on the international political implications of global problems such as Energy, Nuclear Proliferation, Food and Population, Human Rights, Arms and Technology Transfers, and Terrorism. It also will be following developments in key international organizations and analyzing such international trends as modernization, authoritarianism, the emergence of regional powers, and LDC demands for a "New International Economic Order."

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Comments from readers on the priority of topics for analysis, on the substance of articles in this periodic publication, and on other matters of mutual interest are most welcome.

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New Strains Ahead as the North-South Dialogue  
Resumes?

The atmosphere of accommodation that has eased tensions in North-South relations since the 7th Special Session of the UN in September 1975 is under serious challenge. Developments over the past several months have generated political pressures within both camps that could lead to another round of confrontation. For the US, this could mean new strains in relations not only with key LDCs but also with its West European and Japanese allies.

Pressures From the South

LDC demands have been specified many times since the first call for a "New International Economic Order" at the summit meeting of the nonaligned states in Algiers in September 1973. While the demands cover virtually all aspects of international economic relations, four areas of major contention with the industrialized countries are likely to be the focus of negotiations in 1977.

--The LDCs are demanding the establishment of formal mechanisms, under LDC control, that would guarantee and substantially increase the real prices of raw materials they export to the industrialized states.

--Developing countries want a greater say in the process of review and reconsideration of their official and commercial debt obligations. Some LDCs support this objective reluctantly, but all support the demand

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that the debt burden of the poorest developing countries be forgiven or delayed.

--The developing states want to improve their industrial sectors through mandatory programs for the transfer of technology, and improved access to financing and markets in developed states for manufactured goods and semi-processed raw materials.

--Notwithstanding the increased LDC emphasis on systemic changes rather than aid, all the developing countries support the demand that each of the industrialized states by 1980 provide annually at least 0.7 percent of its gross national product in official development assistance.

Last December, the LDC participants in CIEC (the Conference on International Economic Cooperation) agreed to postpone ministerial-level negotiations until a new US administration had taken office. The review conference that had been scheduled to begin on December 15 was to be an important test of progress in the "North-South" dialogue between the industrial and the developing countries on the future of the international economic order. Postponement of the review conference probably avoided a confrontation over LDC demands, the most contentious of which was for the relief of the LDC's debt. It also provided the US with time to work behind the scenes to insulate CIEC from pressures by some OPEC states (most notably Saudi Arabia) to link future oil price decisions, in part, to US concessions to LDC demands.

There is evidence, however, that key LDCs intend to put US policy toward North-South relations to an early test which could lead to increased tensions if and when CIEC resumes. Brazil, Venezuela, Argentina,

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India, Indonesia, Zaire, and Zambia\* have all indicated that their support for the postponement was based on expectations that the new administration will soften the US position on LDC debt rescheduling and ask Congress for increased US contributions to the World Bank's "soft" loan facility.\*\* Such initiatives, these LDCs argue, will be essential not only to the continuation of the CIEC, but also to the success of US diplomacy in the UNCTAD Commodity Consultations (scheduled through mid-1978), and on such issues as Law of the Seas, the UN's international development strategy, reform of the GATT, as well as in dealing with some key LDCs (e.g., Brazil, Iran) on regulating the export of nuclear technology.

The politically moderate LDCs in CIEC are under pressure to show other developing countries that negotiations with the industrial states can lead to the realization of at least some LDC goals. In the absence of US initiatives early in 1977, for example, to break the CIEC impasse on the debt issue or demonstrate "good faith" by increasing official development assistance to the lending institutions LDCs prefer, many of the developing countries that have acted as moderating influences at CIEC and elsewhere may threaten to change their tactics.

*\* These states regard themselves as "moderates" in North-South relations and their support has been essential to US efforts to prevent the breakdown of the CIEC. They also play important leadership roles in the "G-77," the UN caucusing group which coordinates LDC positions at North-South conferences, and they have supported US policy by advising against the confrontational tactics of the "radicals" (e.g., Algeria, Cuba).*

*\*\* The US contribution to the fourth replenishment of the International Development Authority was lower than many LDCs expected. They want the US contribution to the fifth replenishment substantially increased.*

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The LDCs will likely voice renewed skepticism about the US commitment to a North-South dialogue, and at least some will threaten to reconsider their willingness to negotiate behind the scenes with the US and other industrial countries to reach compromises on most LDC demands. At least initially, however, such posturing is likely to be aimed not at alienating the US or at breaking off the dialogue, but at getting the US more engaged in seeking mutually satisfactory compromises on North-South issues. Most LDCs--especially the more influential ones--believe that active US leadership is essential for progress on such key issues as commodity agreements, LDC debt relief, and the reform of international financial institutions that will be high on the agenda of the North-South dialogue in 1977.

The timing of and linkages between a number of meetings scheduled this year will, finally, provide the LDCs with additional opportunities to pressure the US and its allies.

Talks will begin in Geneva on March 7 on a proposed UNCTAD fund to stabilize the price of raw materials. LDCs will view the initial stands of the industrialized states as a test of the latter's willingness to negotiate. The UNCTAD talks could thus influence talks in the CIEC framework, while the timing of the latter is certain to depend on the scheduling of an economic summit meeting of the Trilateral countries. A delay of the CIEC ministerial meeting until June, however, would subject it to pressure from the OPEC oil ministers conference that will be held in early July. Additional pressures on US policy could also result if the UN General Assembly is called back into session. Delegates agreed last December not to adjourn as usual, but to recess and then reconvene after the CIEC ministerial to evaluate progress in the North-South dialogue. An unsatisfactory ministerial--or its cancellation--would provide LDCs with the opportunity to raise North-South issues again in a highly politicized fashion at a forum where the US and the industrialized states are at a distinct parliamentary disadvantage.

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Pressures from the North

US policy toward LDC demands will also be complicated by the likelihood of conflicting pressures in 1977 from the West European states and Japan over how that policy is formulated and the shape that it takes. These states are more dependent on the developing countries--as suppliers of raw materials and markets for exports--than is the US, and some in the European states and Japan argue that the US would have less to lose should a new confrontation between industrialized and developing countries erupt. At the same time, however, some West German and Japanese officials are concerned that the US may move too quickly to accept some of the LDCs' demands, and they will exert pressure for close consultations. A unified response by the industrialized states to the LDCs' demands may thus continue to be difficult to work out.

The high-water mark of cooperation among the industrialized states came during the 7th Special Session of the UN General Assembly. Determined US leadership was the key element in the unity of the industrialized states during that UN session. But many of the West Europeans complained that the process of preparing the US proposals excluded them. They have since argued that the industrialized countries' policies must be developed cooperatively if their support is to be counted on and they, as well as the Japanese, have been looking for early meetings with the new administration on these issues. The European Community has been working on new positions for the UNCTAD talks, for example, and will reportedly seek to involve the US in discussions of these proposals at an early date.

Finding a common stand, however, is likely to be complicated by real differences in regional and historic economic interests and relationships, and by the differences in each of the industrialized state's perception of its vulnerability to LDC pressure. Some of the European states and the Japanese believe, for example, that they could not withstand the social and political disruptions likely to be caused should a new round of North-South confrontation lead to uncertainties over raw materials supplies. The West Europeans face

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the additional burden of harmonizing policy among the nine members of the European Community before they can begin to negotiate a common stand with the US and Japan.

There are, in any case, many common points of interest among the industrialized states and continued efforts to find a common response to LDC demands stem even more from this than from a recognition of the tactical disadvantages of disunity. Virtually all industrialized states agree that wholesale acceptance of the LDC demands would undermine the stability of existing economic and political systems. At the same time, most agree that refusal to concede on any demands, or the inability to put together a program of action on which most LDCs would find it possible to compromise, could lead to renewed confrontation with the LDCs, and with it the possible disruption of OECD relationships.

#### Implications

To date, most of the political tensions in North-South relations have been caused by the LDCs' search for bargaining leverage. Ever since the 1973-1974 Arab oil embargo, non-OPEC LDCs have sought unsuccessfully to convert control of raw materials into influence over the industrial countries.

Current indications suggest that a growing number of influential LDCs believe their most potent leverage may now lie in exploiting the political divisions among the industrial countries over a response to LDC demands. A key objective of this strategy would be to intensify pressures on the US from the industrialized states to soften its opposition to some LDC demands. As in the period prior to the UN General Assembly's 7th Special Session, US leadership may be essential to reducing tensions within both camps. Such tensions, unless checked, could lead to a new round of North-South confrontation, which would interfere with attempts to address cooperatively such pressing global issues as energy shortages, food and population problems, and the performance of the world's economy.

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The Abu Daud Affair: A Chronology and  
Some Preliminary Observations

The Prelude, Denouement, and Initial Repercussions:

3 January 1977	Prominent Palestinian "rejectionist" militant Mahmud Salih is slain in Paris by unknown assailants.
6 January	Fatah Revolutionary Council member--and former Black September Organization (BSO) leader--Muhammad Daud Awadh, alias Abu Daud, arrives in Paris to attend Salih's funeral as a member of a delegation representing the Palestine Liberation Organization (PLO). He is traveling on an Iraqi passport under the name of Yussif Hanna Raji. Together with the other members of the PLO delegation, he calls on a high-ranking French Foreign Ministry official.
7 January	Alerted to Daud's true identity/ <div data-bbox="639 1312 1367 1480" style="border: 1px solid black; height: 80px; width: 448px; margin: 5px 0;"></div> French security officials arrest and detain him. German security officials are notified of this action and are given 24 hours to submit an arrest warrant. (The original warrant that the Germans had issued for Daud's arrest in connection with the key role he is alleged to have played in planning

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the BSO operation against the Israeli team at the 1972 Olympic Games in Munich had been canceled when he was tried and sentenced to death on altogether different charges in Jordan in 1973--and no one had thought to reinstate the warrant when he was subsequently reprieved and released.)

8 January

With the assistance of the Federal Criminal Office in Bonn, Bavarian state authorities issue an international warrant for Daud's "provisional arrest." This done, the Bavarians begin building and documenting their case for Daud's extradition. While review and approval by federal authorities is required before a formal extradition request can be sent to France, both Munich and Bonn are operating under the assumption that the terms of the 1951 Franco-German Extradition Treaty give them up to 20 days to complete this process.

8-10 January

Official and unofficial Arab spokesmen protest Daud's arrest. The PLO threatens retribution. French newspapers draw attention to the dilemma posed for their government by its recent endorsement of the Council of Europe agreement on extraditing terrorists on the one hand, and its de facto support of the PLO as the legitimate representative of the Palestinian people on the other.

10 January

Tel Aviv sends Paris a formal request for Daud's extradition to Israel.

11 January

French leaders decide that Daud is to be expelled that afternoon unless a formal extradition request from Germany is received in the interim.

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As a result, the wheels of French justice turn with unc customary speed. A French appeals court, meeting briefly and in camera, rejects the Israeli extradition bid as legally deficient. More important, it rules that the Bavarian warrant is technically defective and thus provides no valid grounds for holding Daud until an extradition request is received from Bonn. His release ordered by the court, Daud is promptly placed on board an Algerian airliner bound for Algiers. Protests from Western capitals, including an expression of dismay from Washington, flow in. Israel recalls its ambassador from Paris.

12 January

In a move probably timed as much for its domestic political impact as for its reassuring effect on ruffled Arab states, anonymous French governmental spokesmen prematurely allege that France and Egypt have finally concluded a long incubating multi-billion dollar arms deal centering on the sale and licensed production of Mirage F-1 aircraft. Following hard on the heels of the French Defense Minister's return from a round of negotiations in Cairo, this development fans further critical speculation in Western circles about France's motives in freeing Daud.

12 January

French Interior Minister Poniatowski, alleging that the French government had acted in full conformity with both its treaty obligations to Germany and the requirements of French law, lays the blame for the outcome of the Daud affair on German hesitation. (Earlier, there had been reports that Poniatowski and other French officials who had been in

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direct contact with the German Interior Ministry had gradually become convinced that those officials in Bonn who were pressing them to hold Daud were not speaking for the German government as a whole.)

13 January

Breaking his silence on the affair, Prime Minister Barre publicly defends French actions and notes that his government had sent a formal protest to the PLO for its role in sponsoring Daud's travel under an assumed name. A French Foreign Office official delivers a pro forma rejection of the US Department of State's criticism of the release. Franco-German polemics become harsher.

13-15 January

The US Senate Foreign Relations Committee approves a nonbinding resolution declaring that Daud's release has served to undermine international efforts to halt terrorism. A group of over 30 US Congressmen and Senators send a critical cable to French President Valery Giscard d'Estaing. Major American Jewish organizations call for an economic boycott of France.

15 January

Speaking from Algiers in one of a series of telephone interviews granted for the purpose of exploiting the stir caused by his arrest and release to maximum political advantage, Daud offers to stand trial in Munich in order to clear himself of the charge that he "master-minded" the 1972 Olympic Games attack--provided that Bonn guarantees his security and makes the necessary arrangements through the PLO.

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16 January            German spokesmen, noting that Daud was fully aware that these conditions would be unacceptable, dismiss his bid as self-serving rhetoric.

17 January            During the course of a news conference devoted primarily to domestic matters, President Giscard also lays the blame for Daud's early release on German vacillation. Stressing France's sovereign right to handle such cases as it sees fit, he angrily denounces what he describes as a campaign of insult and vilification against the honor and dignity of his country.

18-21 January        Tempers begin to cool, press coverage drops off, and efforts to repair the damage done to Franco-German, Franco-Israeli, and Franco-American relations are begun.

22 January            President Giscard flies to Saudi Arabia, France's principal oil supplier, for a long-planned four-day visit. In a special gesture of esteem, ailing King Khalid goes out from Riyadh to greet Giscard at the airport.

Discussion:

As may be surmised from the above account, the circumstances surrounding the arrest of Abud Daud in Paris on 7 January and his abrupt release just four days later are still somewhat murky. For example, hard information is lacking as to who ordered the arrest, the precise nature of any understanding worked out by French and German security officials beforehand (or, for that matter, whether such an understanding was worked out at all), and just how and when senior political leaders and Foreign Ministry officials in the two countries became privy to the affair. Similarly, many of the details of the bureaucratic wrangling within (and bilateral sparring between) France and Germany that

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followed Daud's detention have yet to be established. Certainly none of the official and quasi-official statements that have emanated from France and Germany can be taken at face value.

Nonetheless, enough is known to cast the episode into clearer and broader perspective. To this end, three general observations are offered--and their implications explored--below.

First, the episode highlights the strength and persistence of obstacles that have been frustrating efforts to develop more effective international countermeasures against terrorism for nearly a decade.\* Specifically, the Daud incident demonstrates that the damaging impact of the Lebanese civil war on inter-Arab relations and the political fortunes of the PLO has not, as some had hoped, significantly reduced the force of these inhibiting factors in cases where Palestinian militants are involved. Moreover, despite the smoke generated by recent counterterrorist initiatives in the Council of Europe and the UN, the Daud case strongly suggests that the salience of these constraints also remains basically unchanged with respect to actions against any political formation that has succeeded in winning broad popular and official recognition of its "national liberation" or "revolutionary" credentials.

*\* Foremost among these are the controversy over justifiable versus illegal political violence that has found reflection in repeated affirmations of the primacy and inviolability of the right to self-determination, broad resistance to such infringement of national sovereignty (i.e., freedom of maneuver) as would be implied in any inflexible curtailment of the right to grant political asylum, and a natural reluctance on the part of many states to commit themselves to any course of action that might invite retribution--either by terrorist groups or by states sympathetic to the terrorists' cause.*

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The Germans, less exposed, have been able to put a better face on things. Nonetheless, their official censure of France's action was accompanied by private expression of relief. There is, in fact, no doubt that grave and growing concern over the risks and problems that Bonn would shoulder in bringing Daud to justice was as much or more responsible for the deliberate pace at which the Germans had been moving as belief that there was plenty of time to act under the terms of the 1951 Franco-German Extradition Treaty. (Indeed, it is not altogether certain that the Germans would have ended up by requesting Daud's extradition even if the French had been willing to hold him for another two weeks or so.) Finally, it should be noted that whether or not the German government was consulted in advance of the event (and there is some evidence to suggest that it was), the Germans must have been aware from the growing urgency of French efforts to obtain an official confirmation from them of their intention to request extradition that Paris was seriously considering releasing Daud on January 11. Hence, Bonn's failure to take advantage of the opportunities offered to weigh in against such a step at the last minute was in all probability deliberate.\*\*

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*\*\* In fairness, it should be emphasized that an appreciation of the additional costs in terms of damage to Franco-German relations that would have been entailed in pressing Paris to hold Daud against its will was probably one of the more important factors contributing to German reticence.*

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The second "lesson" that can be drawn from the Daud affair is the importance of routine pre-crisis coordination of terrorism-related policies and contingency plans with all the key domestic and foreign actors whose interests and options they could affect. In the Daud case, a well-intentioned effort to place a notorious terrorist behind bars was virtually foredoomed to a failure by a lack of adequate prior planning and coordination. True, the cooperative arrangements that have been established within the Western security and intelligence communities worked well. But the specific contingency of an opportunity to arrest Daud has not been anticipated. In consequence, no warrant was outstanding to justify the action. The case against him had not been fully compiled. Most important, neither the French nor German political leadership had been asked to rule whether the benefits to be derived from apprehending and prosecuting Daud--or others like him--outweighed the costs and risks that would be incurred. Thus, not only was action initiated on shaky legal grounds, but careful spadework and hard decisions that would normally require months to accomplish were forced into a time-frame of days. Under these circumstances, mutually reinforcing French and German apprehensions were further amplified. The net result was confusion, misunderstanding--and relative disaster.

Although it can be argued that the phrase "relative disaster" overstates the case, the perturbations caused by the Daud affair were substantial. And while, thanks to the operation of other and overriding concerns, these are already beginning to subside, their initial scope and force give rise to a third and final observation. Because of the attention that has been focused on terrorism and the extent to which that controversial issue impinges on other pressing international and domestic concerns, the adverse ramifications of a mistake in counterterrorist tactics can easily be amplified out of all proportion.

The calculus at work is much the same as in the case of the disruptive effects of a successful terrorists act. The role of the media is, for example, critical to both phenomena. As demonstrated by the Daud case, intense international publicity reinforces concern over "national honor" and the domestic political implications

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of the misstep in question. It thus tends to exacerbate any ensuing bilateral strains by increasing sensitivity to criticism and encouraging efforts to shift the blame onto others. And it also provides the practitioners of political violence concerned with cost-free dissemination of their propaganda.

In sum, the events of January demonstrate that the goal of developing more effective international counter-measures against terrorism remains a particularly difficult and challenging task. But the key conclusion that follows from the above discussion is that when viewed dispassionately and in relatively broad perspective, episodes such as the Daud affair will instruct rather than undermine efforts to this end. They can, for example, provide all concerned with a better appreciation of what is politically feasible under prevailing circumstances. And they can also furnish useful insights both as to ways in which to avoid similar failures in the future (e.g., more extensive pre-crisis planning and coordination) and methods for muting the initial reverberations if such failures as do occur.

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Soviet Nonproliferation Policy

The Soviet Union continues to send clear signals to the United States and other Western countries that it wishes to reinforce international efforts to halt the proliferation of nuclear weapons. The Soviets have--with a possible exception in the case of India--been consistent opponents of nuclear proliferation, and have argued for more stringent controls on the transfer of nuclear materials and technology than currently required by the US and most of its allies.

Recently, General Secretary Brezhnev advocated a strengthening of the Nonproliferation Treaty, and a key Soviet negotiator on nuclear matters, I. D. Morokhov, Deputy Director of the State Committee for Peaceful Uses of Atomic Energy, delivered a strong admonition to the US embassy in Moscow on the need for more serious anti-proliferation measures. These statements follow a general pattern of pronouncements by top members of the Soviet leadership which have been repeated and amplified in the Soviet press.

The Soviets are focusing their attention on creating technical international obstacles to nuclear explosive development in candidate nuclear countries. Universal adherence to the Nonproliferation Treaty and inspection by the International Atomic Energy Agency of all aspects of the nuclear activity of nonnuclear weapon states are currently the Soviets' highest priority proposals for halting the spread of nuclear explosives. The Soviets apparently feel that acceptance of these measures would greatly ease their own concern about nuclear development in a number of key countries, such as West Germany, Israel, Iran, and Pakistan.

The Soviets believe the present international non-proliferation regime contains two major weaknesses. First, several nations of critical importance from the Soviet point of view are not treaty signatories,

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including the Chinese. Second, some NPT adherents have not fully subjected their nuclear programs to international inspection by the IAEA, relying instead on regional arrangements, i.e., EURATOM.

The Soviets intend to advance their views at the March meeting of the Nuclear Suppliers Group (NSG), also known as the London Suppliers Conference. Specifically, they will propose "full fuel cycle" controls. By this they mean that acceptance of IAEA safeguards and inspection of all nuclear facilities in a recipient country should precede any transfer of nuclear materials or technology by the major nuclear exporters. In addition, the Soviets recently have been more receptive to US proposals for the establishment of multinational nuclear reactor spent fuel reprocessing centers and plutonium storage areas.

Since most of the so-called threshold nuclear states are antagonists of the Soviet Union or its clients, there is little reason to doubt the sincerity of Soviet non-proliferation views. The Soviet Union does not wish to see sensitive nationally controlled nuclear facilities, such as enrichment or plutonium separation plants, developed in any nonnuclear weapon state, including even its Warsaw Pact allies. Indeed, except for recent shipments of heavy water to India with prior safeguard agreements, the Soviets have been exceptionally careful to avoid creating the potential for nuclear weapon development in any country to which they export nuclear materials. Even in the Indian case, the Soviets insist they followed the letter of the NSG agreements and that they had adequate safeguard assurances.

While the Soviets insist on stringent technical and legal arrangements to halt proliferation, they have avoided directly addressing the underlying political factors that advance the process. Their political efforts for the most part have been limited to symbolic actions, such as supporting UN Security Council Resolution 255 condemning nuclear aggression and advocating a "no first use" of nuclear arms treaty in the General Assembly. The Soviets have not proposed any international measures involving the cooperation of the major powers to reduce the fundamental political and security imperatives that so often impel threshold states to

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initiate nuclear development programs. Instead, the Soviets fall back on more narrow legal and technical proposals, such as calls for a comprehensive test ban. (There are some signs that they may eventually also propose a moratorium on peaceful nuclear explosions, a reversal of a long-standing position.)

The Soviets generally have confined their diplomatic efforts to protesting what they consider to be dangerous acts of nuclear proliferation. French sales of a reprocessing plant to Pakistan and reactors to Iran and South Africa have come under harsh criticism. Yet the Soviets have not overtly applied pressure to states that may be creating the insecurities that drive these and other countries to fabricate nuclear weapons. In part, this is because the Soviets highly value bilateral relations with some countries whose actions are spurring the proliferation process. In other circumstances, the Soviets simply lack any effective leverage, such as in South America or South Africa. However, even in areas where they could reduce the political and military tensions that may stimulate nuclear development, as in Korea, the Soviets have not been especially active.



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Energy Dependence and Atlantic Relations\*

Western Europe's dependence on imported OPEC oil will remain high--probably around 40 percent of total energy consumption--over the next 10 years. Earlier hopes for a substantial reduction of this dependence through the development of alternative energy sources have had to be scaled back repeatedly during the past two years because of persistent troubles in the European coal and nuclear industries. While North Sea oil and gas will soon make a major contribution to Europe's indigenous energy supplies (and bring energy self-sufficiency to Great Britain and Norway), they are likely at best to stabilize, rather than to reduce, the total volume of European oil imports. This continuing dependence, and its various economic and political ramifications, will have an important impact on intra-European and US-European relations for the foreseeable future.

Europe's energy dependence in effect "competes" with its relationship to the US, in that it promotes both an inward-looking preoccupation with domestic problems and a high degree of responsiveness to oil-producing countries. This tension creates the potential for serious strains on Atlantic Alliance cohesion in the event of an oil supply emergency like that of 1973-1974. More generally, it may limit the responsiveness of European countries to American interests and priorities in a variety of contexts, including cooperation among oil-importing countries. Despite the fact that high energy costs have enhanced American economic strength vis-a-vis Europe, the result may mean new frustrations for the US leadership role in the Atlantic Alliance.

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Energy trends are unlikely to provide an impetus for greater unity within Western Europe. On the contrary, growing disparities in energy dependence, as well as in underlying economic health, increasingly challenge the progress of European integration. High energy costs have tended to aggravate the gap between strong and weak economies, since the former have a much greater capacity than the latter to absorb the shock of increased prices. Countries like France and Italy, which have neither the domestic energy endowments of a Great Britain nor the economic vitality of a West Germany, have found that high oil bills greatly compound the difficulties of escaping a persistent cycle of inflation, depreciating currencies, and balance-of-payments deficits.

Such problems will continue to complicate the management of Atlantic trade and monetary relations, and the coordination of policies on "North-South" issues. The ideal of a liberal international economic order is likely to face a variety of neo-mercantilist pressures, as oil importing nations attempt to manage energy-related domestic economic difficulties and to form special trade and investment relations with oil producers. While such strains are unlikely to rupture the underlying strategic unity of the Atlantic nations, NATO solidarity could be tested by growing pressures on Euro-

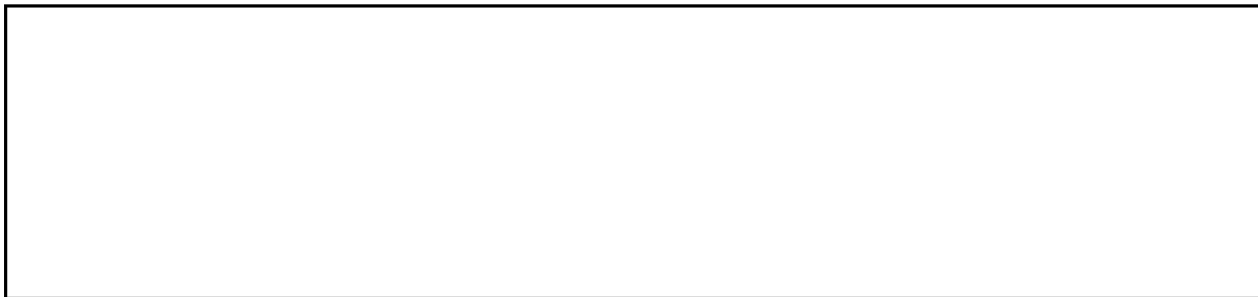
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pean defense budgets and by the strengthened Mediterranean/Middle East orientation of the heavily dependent southern European states.



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