

BILDERBERG MEETINGS

**VOULIAGMENI
CONFERENCE**

22-25 April 1993

NOT FOR QUOTATION

INTRODUCTION

The forty-first Bilderberg Meeting was held at the Nafsika Astir Palace Hotel in Vouliagmeni, Greece, on April 22-25, 1993. There were 114 participants from 18 European countries, the United States and Canada. They represented government, diplomacy, politics, business, law, labor, education, journalism, the military, and institutes specializing in national and international studies. All participants spoke in a personal capacity, not as representatives of their national governments or their organizations. As is usual at Bilderberg Meetings, in order to permit frank and open discussion, no public reporting of the conference proceedings took place.

This booklet is an account of the 1993 Bilderberg Meeting and is distributed only to participants of this and past conferences and to prospective participants of future conferences. It represents a summary of the panelists' opening remarks for each session, and of the comments and interventions made in the subsequent discussions.

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LIST OF ABBREVIATIONS

A	Austria	ICE	Iceland
B	Belgium	INT	International
CDN	Canada	IRL	Ireland
CH	Switzerland	N	Norway
D	Germany	NL	Netherlands
DK	Denmark	P	Portugal
E	Spain	S	Sweden
F	France	SF	Finland
GB	Great Britain	TR	Turkey
GR	Greece	USA	United States of America
I	Italy		

AGENDA

- I. WHAT KIND OF EUROPE WILL THE U.S. HAVE TO DEAL WITH?**
- Moderator: Christoph Bertram
Panelists: Volker Rühle
Lord Owen
- II. CURRENT EVENTS: FORMER YUGOSLAVIA**
- Moderator: Lord Carrington
Panelist: Lord Owen
- III. RESTORING CONFIDENCE IN LEADERSHIP AND INSTITUTIONS**
- Moderator: Vernon Jordan
Panelists: James Hoagland
William Rees-Mogg
- IV. PROSPECTS FOR GLOBAL TRADE**
- Moderator: Peter Sutherland
Panelists: Arthur Dunkel
Lane Kirkland
- V. U.S. DOMESTIC POLICY CONCERNS**
- Moderator: Renato Ruggiero
Panelist: Vernon Jordan
- VI. THE OUTLOOK FOR JAPAN'S ECONOMY**
- Moderator: James Wolfensohn
Panelist: Kenneth Courtis

VII. COST OF INDIFFERENCE TOWARD THE FORMER SOVIET UNION

Moderator: John Whitehead
Panelists: Rodric Braithwaite
William Odom

VIII. CURRENT EVENTS: ITALY

Moderator: Lord Roll
Panelist: Renato Ruggiero

IX. FOREIGN POLICY CONCERNS OF THE CLINTON ADMINISTRATION

Moderator: Thierry de Montbrial
Panelist: Samuel Lewis

X. CRISIS MANAGEMENT

Moderator: Lord Carrington
Panelist: Manfred Wörner

I. WHAT KIND OF EUROPE WILL THE U.S. HAVE TO DEAL WITH?

The moderator of this session observed that it was timely to grapple with a number of questions that were being asked, especially in the United States, about the new Europe. What is the new Europe? Where is it going? What will happen with Maastricht? Is Europe the Community, or is it more than that? And how should this Europe relate to the United States?

The session was led by two panelists, a German and a Briton. The German, who spoke first, focused his remarks upon the challenges that lie ahead in the European integration process and the future role that Europe must play in the world. The British panelist addressed his remarks to the lessons that Europe should learn from the problems in the Maastricht process, which have altered the planned course of European integration in ways that are generally positive.

The discussion dwelt extensively upon the Maastricht process, what went wrong the first time and what are the prospects for the Danish referendum in a few weeks' time. Speakers gave their views on current problems and challenges confronting Europe and their prescriptions for what course Europe should follow in the future. There were a few Euro-skeptics among the participants, but the view of the majority was that Europe had weathered some important challenges and was making real progress. Americans were largely silent in the discussion, a reflection, suggested one who did speak, of the current preoccupation with the domestic agenda in the United States.

Panelist's Remarks, I.

Much is going on in Europe at the present time. In the West, the process is one of integration, with the formation of larger units. Meanwhile, in southeastern Europe, you have disintegration, with division into smaller units.

The task for Europe is to broaden, deepen (by approving the Maastricht Treaty) and open up (by extending membership to more countries), while maintaining the link to the United States.

Europe must work out a defense identity which is consistent with the desire of the U.S. to pull back. The opportunity for membership in NATO must be offered to Eastern European nations. For this to work, there must be a partnership between NATO and Russia.

In the area of widening, we need to look at the conflict

between widening and deepening. The gaps in prosperity between the nations of Western Europe and those in Eastern Europe must be narrowed. This cannot be Germany's responsibility alone. The club of twelve cannot be perfected as long as this gap exists. From the security standpoint as well, the West must work to stabilize the fledgling democracies of the East.

In the process of shaping the future of Europe, the U.S. must be an important, active player. European identity always includes the vital transatlantic dimension. In the future, there will be new jobs for NATO to take on. The most unlikely future conflict is an attack on Western Europe. NATO only makes sense if it addresses the most future tasks: peacemaking and peacekeeping.

The United States will have to deal with a Europe which continues the integration process, which develops into a more capable, self-confident, equal partner, which gives priority to economic and social elements of security, and which restructures its military forces to better meet crisis management needs in a collective manner.

Panelist's Remarks, II.

The Europe with which the U.S. will have to deal is today a chastened, better Europe. The Europe of illusions is gone. Europe today is more realistic and will be a better partner. It is on an unstoppable course, and no country that wants to play a future role can opt out. But the illusion that Europe is going to be modeled on the United States is over.

This was the message of the Danish referendum on the Maastricht Treaty, and, more important, the French referendum, which very nearly lost, in spite of the fact that the government and its major opponents were united in support.

The construction of Europe must go forward, but recognizing certain limits. There will be certain areas of policy that are going to remain primarily governmental: foreign policy, defense, and immigration and related issues. These are matters of too great concern to the publics for governments to let go of and pass to a supra-governmental body. There will be collective decision making, but final authority will be reserved for the governments.

While there is a will to have a common foreign policy, Yugoslavia showed the futility of trying to have a common foreign policy based on a vote. You cannot conduct foreign policy or defense

policy on the basis of majority voting. NATO has been the best defensive alliance in history, and it has never operated this way.

The Atlantic partnership must and will continue to be very important. It will change, with the dominance of the United States giving way to a more equal bilateral relationship. But there are issues in Europe from which the interests of the United States cannot be separated.

Discussion

The next big test of the process of European unification and integration is the second Danish referendum on the Maastricht Treaty. Most observers expect a "yes" outcome, although a negative vote is still a possibility. Should that happen, the question is whether the process should go on without the Danes, or pause for an indefinite period of time. There is a chance that, if the Danes do reject Maastricht again, the United Kingdom will follow suit. In this event, there will almost certainly have to be a pause in the process, if not an entirely different approach.

What went wrong with the Maastricht process the first time? Why did the Danes vote "no" and the French barely vote "yes"? One view is that the electorate increasingly felt that the European Community was developing in the direction of bureaucracy and centralization and away from accountability. This suggests that national leaders must take care not to lose touch with public opinion. European integration has to be a political process in which governments have the time to bring along their peoples. They must more clearly define the goals and objectives of integration.

Some national political leaders have failed to try to explain to their people how the community works. Many of them have blamed the European Commission for everything that goes wrong, while taking credit for what goes right. There is a need for a more open, sensible process. Future revisions of Maastricht will have to be done openly and well in advance and then subjected to debate. In retrospect, the first Maastricht effort resulted in a poor treaty, cobbled together in haste. Its weakness was that it was intergovernmental; it was not negotiated in a constitutional way.

If accountability is one of the big issues, then the answer is to have a completely democratic structure in the Community, in which the European Commission is accountable to the European Parliament. In

that case, we must have acceptance of a real European Parliament. There are certain responsibilities and functions that will have to be done at the Community level that call for more, rather than less, community.

1992 was a year of negativism in Europe because Europe did not deliver what the politicians had promised it would. In the Europe of 1992, there was supposed to be peace, prosperity, and high employment. What people saw and experienced was the opposite: recession, unemployment, war in Yugoslavia, and endless bickering among governments over obscure issues. Europe finds itself in its current crisis because of a number of factors, including the consequences of the end of the cold war, world recession, the stringent requirements of monetary union, and the need to adapt to open markets.

But the aims of Maastricht remain valid: the need for a common foreign and defense policy, and some sort of economic and monetary union. In some respects, the process of European integration is more sound today than it was a year ago. Progress has been made in the integration of markets, and, in spite of the currency crisis, there was no reintroduction of controls on international capital movements. The major tests the Community has recently faced--German reunification, currency crisis, and recession--have not caused disintegration. Indeed, the past twelve months have proven the logical framework of Maastricht.

In summary, in spite of recent difficulties, Europe has made great strides by sticking together. This is, therefore, no time for a new round of European introspection. The process of integration was never intended to result in a "United States of Europe." But it has resulted in a unique pole of stability, the only one on the whole Euro-Asian continent. The process of integration must certainly go forward, but in a more measured, gradual, open manner, stressing accountability.

II. CURRENT EVENTS: FORMER YUGOSLAVIA

For the third year in a row, Yugoslavia - now known as the former Yugoslavia - was selected as a topic for the sessions on Current Events. That, alone, underscores the continuing significance which the world attributes to this Balkan tragedy. Without reviewing the events which have led to the current Yugoslavian conflict, the panelist outlined the current situation, the rationale behind the Vance-Owen plan, and his analysis of the various alternative solutions which have been and continue to be considered.

Panelist's Remarks

The present situation in Yugoslavia is a tragic example of how important it is to remember the history of a country as we try to confront an almost unsolvable situation in the Balkan area, one which could be repeated at any time around the world. It is graver than anyone, even the media, could possibly portray and there is a real potential for war, not just within its boundaries but spreading throughout the Balkan region and even beyond. Therefore it is imperative that pressure be maintained on those who are resisting all attempts at peace. This applies most particularly to the Bosnian Serbs, who feel that, through continuing fighting and "ethnic cleansing", they can create a greater Serbia, contiguous with the original Serbia from where the impetus for these aggressions has come.

At the same time, one must not forget the other tensions around the country. The Croats are fighting the Muslims, sometimes committing the same atrocities as the Bosnian Serbs, though not to the same horrific extent. One must be aware that there is a great deal of dry tinder around Bosnia, which could break into an inferno at any moment.

The recent decision by the United Nations to increase sanctions against the region is both welcome and about six to eight weeks late, during which time the world has had to witness the continuing abominations. The delay was understandable, given the referendum in Russia, which President Yeltsin has called in search of a vote of confidence in his leadership. If Yeltsin were to lose out to the hard-line military and politicians, Serbia might well have an ally to support its efforts, both militarily and with supplies of food and other goods. At the same time, the delay has been put to tragic use by the Serbians

and has heightened the determination, both in Europe and the United States, to find some workable solution.

This merely underscores the importance that the new sanctions are enforced by all countries. To date that has not been the case and scattered "cheating" on sanctions has severely diluted their success and leaves open the possibility of more controversial solutions, including military intervention. The Vance-Owen Peace Plan, which calls for dividing Bosnia and Herzegovina into ten largely autonomous provinces, has been thus far signed by two of the three factions. This has been possible because the Muslims in Bosnia have finally come to accept that a Muslim-dominated territory is not feasible, and that a partitioned Bosnia would not survive. It remains for the Bosnian Serbs to accept a parallel limitation - that a good portion of the land they have conquered to date not only may not be used to create a "greater Serbia" contiguous to the present one, but must be returned to its original owners.

Discussion

The discussion began with an American, speaking on the military possibilities available for consideration, and the relative merits of each level of intervention. His words reflected the opinions of many participants, both European and American, who strongly supported a continuation and increase of economic sanctions, while at the same time recognizing that some form of military intervention might ultimately be necessary. While the West continues to employ political, moral, economic and military coercion, there is an urgent need to develop a consensus among the European Community and the United States on the next direction to take.

Although lifting the arms embargo on the Muslims would be limited to supplying small arms to Croats and Muslims in Bosnia-Herzegovina, at the same time it would send a confrontational signal to the Bosnian Serbs. Any more significant arms, such as artillery, would require training in the use of such weapons, and would signify an acceptance that the fighting, and concurrent atrocities, would continue.

In an air strike, the targets would be almost impossible to pinpoint, as was the case in the recent war in Iraq, thus falling far short of the hoped for effect. The risk of killing innocent people would be

high and would surely lead to a retaliation by the Serbs, including possible air strikes on European countries outside the Balkan area.

What about a ground war? Putting in ground troops would require removing the peacekeeping teams now in place which are providing humanitarian support, and effectively bringing that support to a halt. Moreover it would give the signal that the United States and Europe are not above the fray, but ready to be a part of it, undoubtedly leading to an escalation on the part of the Serbs. And one must ask which troops would be used if a ground war were begun. It would be nearly impossible to get a consensus around Europe and in the United States as to which troops to send and how many. If any troops are needed, they should be NATO troops, with the capacity to facilitate a consensus among the politicians from the supporting countries.

By process of elimination, therefore, it would seem that the political pressure and sanctions must continue, but at a more intense level.

The remainder of the discussion reflected a strong sense of frustration over the opportunities missed during the earlier phases of this conflict, as well as the drawbacks of each of the alternatives that have been considered. Although several countries, including Canada, had urged intervention at an earlier stage, it was conceded that both Americans and Europeans had been preoccupied with time-consuming events in their respective countries, such as the Maastricht Treaty in Europe, and the Presidential election in the United States. On the whole, it was felt that military intervention should only be used to contain whatever peacekeeping agreement could be achieved.

The arguments both for and against lifting the arms embargo were strongly articulated. Those who supported such a move felt that the more palliative methods have been given long enough to take effect, and at this point to deny the Muslims the arms with which to defend themselves seemed almost inhuman. Others felt that lifting the embargo would be a signal for everyone to take up arms, not only the Muslims in Bosnia and the surrounding countries, but the Europeans and Americans as well. One participant suggested that the situation would be quite different if the Muslims were the aggressors rather than the victims; that the Western countries would have moved in with military force against them at a much earlier point. Suggesting that a continuation of the present approach would neither solve the problem or create a permanent solution, he proposed that a Muslim force, made up of the greater Muslim community and augmented by other troops

on a voluntary basis, be formed and armed in order to give them the means to confront the Bosnian Serbs on a more equal basis. Ethnic cleansing is not really ethnic at all, he noted, but religious, and perhaps an equal balance of power between the factions would persuade all of them to bring an end to the unconscionable bloodshed taking place.

The panelist confirmed, in response to several participants' doubts about the validity of signatures on any agreement that might be reached, that such signatures would, indeed, mean very little. Therefore, it was not realistic for the Americans to condition any potential commitment of peacekeeping troops upon the assurance of an agreement based upon honesty and good faith. The Serbian military are dishonest, untrustworthy, and without scruples, he noted, which underscores the need for a large and strong peacekeeping force to uphold any agreement which might be reached. At the same time, however, thousands of decent Serbs, as well as Croats and Muslims, who are not in the military, not only want peace but are already demonstrating a capacity to get along. There is a large amount of cross cultural living and marriage among the three factions and it is not unreasonable to hope that simple human nature, once the military forces are quieted, might combine with the peacekeeping efforts to assure a more stable environment. Therefore, one has to count on a degree of trust that these elements will help to hold an agreement together.

To lift the arms embargo, the panelist reiterated, would be just about the worst decision one could make. First of all, in spite of their best intentions, the Russians would find it difficult to refrain from supplying arms and other necessities to the Serbs. The Russians have a great deal of modern equipment and the Serbs have the money with which to pay for it. Second, such action would be a flat-out concession to a larger, fiercer, and longer war which, as said before, would have all the potential of spreading farther afield. Thirdly, by lifting the arms embargo, the West would have to withdraw all of its humanitarian aid now in place and would be sending a signal, essentially, that they are no longer able or willing to work towards a settlement through peaceful means.

Ultimately, although the Vance-Owen plan is by no means ideal, it is the only viable method at this time. And it does have a chance of succeeding if only the sanctions were not being violated. The sanctions must be strictly and uniformly enforced; and then one can only hope that reason will prevail.

III. RESTORING CONFIDENCE IN LEADERSHIP AND INSTITUTIONS

Two panelists, an American and a Briton, introduced this topic. The American stated that a loss of confidence in leaders and institutions in his country led to the election of President Clinton, and perhaps the President's foremost challenge is to restore that confidence. This explains the priority given to domestic affairs by the new administration, but, at the same time, President Clinton is well aware that America must stay deeply involved in the world.

The British panelist argued that the main causes of the weakness that has developed in Western leaders and institutions in recent years have been economic: a world depression brought on by debt accumulation, which now must be liquidated in an environment where the traditional economic supremacy of the U.S./Europe axis has been overtaken by the powerful Japanese economy and rapidly developing Chinese economy.

The discussion expanded upon the causes of the weakness of leaders and institutions, and what should be done to restore confidence. The economy was seen as the primary source of our difficulties, but other factors, such as the functioning of political parties and the influence of the media, were identified as playing an important role.

Panelist's Remarks, I.

The topic is particularly timely because of recent events: the re-emergence of governmental gridlock in the U.S., the fall of the Italian government, the return of divided government in France, the economic problems plaguing the leaders of Germany and the United Kingdom, and the paralysis about what to do in Bosnia. Restoring confidence is therefore a very important task facing leaders.

This is particularly true from the American perspective. President Clinton was elected because of a crisis of spirit and confidence. Opinion surveys and polls have shown that the recession has taken a toll on the national psyche. Americans have lowered their expectations; they see a future of higher costs and lower living standards. A powerful anti-status quo sentiment was built up in 1992, with a majority of people feeling that government could change things for the better, but was not; rather it was merely conducting business as usual.

This sentiment in the U.S. affects the way Americans look at other countries, especially their traditional trading partners, and most especially Japan. President Clinton's actions with respect to other countries are influenced by this sentiment. This does not mean he will be constantly looking over his shoulder at opinion polls, but he does feel his task is to build a new consensus as the basis of restoring confidence in leaders and institutions.

President Clinton does not intend to preside over a turning away from the world. He is very much aware that America is an important part of the world. His actions in the early months of his administration with respect to Russia, the Middle East, Somalia, and Haiti illustrate this.

Panelist's Remarks, II.

The main underlying cause of the weakness of leaders and institutions in recent years is the world recession that has impacted almost all economies. This recession resulted from the long period of debt accumulation since the Second World War and the process of liquidating it that began in 1987. Simultaneously, world economic power has shifted from Europe and the United States to the Pacific region, particularly the powerful economy of Japan and the rapidly growing economy of China.

Economic factors have had a considerable impact upon political structures. Institutions seem to have become less effective and leaders less respected. This has led to changes in regimes, which fortunately have been largely confined to the Communist world, where dictatorships have been destroyed.

The challenge facing Europe in this environment is great. The continuation of free trade is vital, but difficult at a time when economic difficulties are giving rise to protectionist sentiments. The European Community is weaker than it was, especially economically. It is unlikely the 11 countries that have not met the convergence requirements set by Maastricht will do so any time soon. The convergence seems to be in high deficits and high unemployment. European governments are weak, and will not find it easy to resist the forces of protectionism or to take the right steps to restabilize their economies.

The unsung hero of this period is Alan Greenspan, who has kept interest rates down in the United States. Fortunately, the Bundesbank has recently caught on. Low interest rates are essential for

orderly debt reduction. Avoidance of protectionism is the other key ingredient, if we are to avoid a repetition of the mistakes made at the time of the 1930s Depression.

The effect of world recession is to disintegrate political authority, as happened in the communist world. These same dangers must not be neglected in the democratic world.

Discussion

A number of factors have contributed to the erosion in popular confidence in leaders and institutions in the United States and Europe. One of these has been a fundamental change in the nature of democracy which can be described as the development of mass democracy. This involves an electorate which is less deferential to its leaders, less fixed in its loyalties, more informed, more critical, and tending to identify itself with special interest groups. In this environment, the political debate has become more volatile, and authority has been diluted.

In some respects, politicians have brought this state of affairs upon themselves. Lacking a clear political philosophy and a sense of direction, they have not delivered what George Bush called "the vision thing." Pandering too much to nationalisms and regionalisms, they have failed to provide the kind of collective leadership these difficult times require. Perhaps one reason for the loss of confidence in leaders is that not enough of the "best and the brightest" are in positions of leadership. Somehow, politics and government service must be made more attractive to the top quality people.

There are problems with our institutions as well as our leaders. Many of our most basic, venerable institutions don't seem to be working as well as they used to, whether they be political parties, labor unions, the media, big corporations, and even the collective institutions, such as NATO, that have served so well in the past. As for the new institutions of the European Community, there is a lack of popular participation in them, a sense of remoteness from the people about them. Perhaps there is a need for new institutions and structures. Certainly there is the need for institutions to change.

Economic issues lie at the heart of the problem of loss of confidence in leaders and institutions. In Europe, there has been a fundamental change in national economies since the fall of the Iron Curtain. The response to this change has been incremental, not

fundamental, applying old rules and solutions to new problems. Indeed, a political paralysis has seemingly gripped Europe when it comes to addressing even the most basic economic problems.

The serious unemployment facing most Western economies is an especially difficult challenge, existing as it does at a time when the West aspires to bring up to its standard of living the peoples of neighboring regions, such as Eastern Europe and Mexico.

The fast pace of technological change is another factor having very significant economic effects. Coupled with the wide disparity around the world of the cost of high quality labor, it has led to very fast shifts in the economy.

The media is another, major factor affecting leadership and institutions. The enormous emphasis on the immediacy of news in both print and electronic journalism may be depriving both governments and educated people of the necessary thoughtful reflection on the issues and events of the day. People tend to make judgements based upon what they see on TV, which greatly oversimplifies complex issues. Governments are in danger of losing control unless they can become more adept at dealing with the emotions produced by instantaneous televised images of such things as the carnage in Bosnia.

On the other hand, the media have produced an electorate which is more widely and better informed on issues. The positive impact of television on the course of world events can be seen in the influence of live broadcasts of the actions of anti-Communist activists in Eastern Europe and in Tienanmen Square.

Leaders and governments can restore confidence by demonstrating a sense of purpose. They must define the major challenges facing the nations of the West: how to compete against the growing economic power of the Far East, and how to construct new principles of international cooperation. Governments must be predictable, consistent, and credible. Their rules of operating must be understandable to their publics, who must be kept well informed. Looking at immediate, concrete goals, confidence would be boosted if we could complete the Uruguay Round, accomplish through our aid a significant improvement of the economic and political situation in Russia, and make some progress, through international cooperation, in the Balkans.

IV. PROSPECTS FOR GLOBAL TRADE

Negotiations on GATT (General Agreement on Tariffs and Trade) as well as NAFTA (North American Free Trade Agreement), are matters of major concern to Europeans and Americans. These agreements will have an impact on both sides of the Atlantic Ocean and ultimately around the world. The first panelist addressed the status of the GATT negotiations. The second panelist, an opponent of NAFTA, proposed an alternative treaty, a North Atlantic Free Trade Agreement. Except for this panelist, support for GATT and for NAFTA, among participants in the discussion, was almost universal. Most of the speakers were European and expressed their thoughts on not only GATT but on how NAFTA would effect European trade.

Panelist's Remarks, I.

There have been strong indications that world trade, which improved last year by 4%, has been the impetus behind world economic growth in the last few years. Although the subject at hand focuses on trade within and between the countries of Europe and the United States, some countries not in the OECD provide an important source of strength in world trade, including Asia, Latin America, the Middle East and, to some extent, Eastern and Central Europe. The turnaround for some of these countries, which were in debt only a few years ago, is quite remarkable. But there is a risk of losing this forward momentum because investors are hesitant over trade with Third World countries. This makes a successful conclusion of the GATT negotiations vital to reenergizing the world economy.

Most of 1992 was lost in terms of making any progress as a result of regional concerns of Europe and America. On the European side, politicians have been focussing on Maastricht. In the United States, the attention has been on NAFTA, as well as a drawn out presidential election. Beyond these distractions, there have been stumbling blocks in the Uruguay Round which are hampering the progress. Several European negotiators have been questioning the validity of the Blair House agreement and the United States, having originally indicated support, has pulled back as well. This happens, in part, because there is an enormous information gap about GATT between the trade negotiators and the legislators which must be addressed. Ultimately, some form of GATT will emerge; the economic

progress we have seen in the less developed countries shows us how crucial such a universal trade agreement is.

Panelist's Remarks, II.

From the perspective of a leader of one of the world's largest trade unions, the years devoted to GATT have been fruitless. Furthermore, such an agreement would be viewed as a major setback for American workers, who feel their rights and safeguards have not been addressed, specifically through the lack of a social clause in the GATT treaty.

A large portion of the labor population in the United States has similar concerns about NAFTA which, in their opinion, would have a depressing effect on United States jobs and markets, with the American industries seeking out the lower wages in Mexico. For American workers, this would result in lower wages at home, inferior working conditions, decreased living standards and, for many, loss of employment.

There is a credible alternative to NAFTA, which would have the same acronym but rather than being a treaty between the United States and Mexico, would connect the US and Europe and be called the North Atlantic Free Trade Agreement. In contrast to the currently proposed NAFTA, which would result in a unilateral posturing on trade, a new Atlantic NAFTA would anchor the United States in Europe, thus reenforcing the common democratic values that are at the root of the NATO political-military alliance. This new NAFTA, negotiated with the twelve nations of the \$6 trillion European Economic Community, would link the U.S. and Canada to a trading block accounting for \$13 trillion in gross domestic product and would create a single market of more than 600 million consumers. America would be tied to countries with high wages, strong consumer purchasing power and high standards of living. A North Atlantic Free Trade bloc would have the clout with which to negotiate balanced trade with Japan and China, and as long as the social charter continues to be part of the agreement, it would have the support of workers on both sides of the Atlantic.

Discussion

The proposal for the North Atlantic Free Trade Agreement elicited strong reactions, primarily negative, from almost every speaker present. Several felt that a U.S./European NAFTA would create a trading bloc uniformly rich in resources and even less accessible to the neighboring, less developed countries than at present, including Mexico and the countries of Eastern Europe. In response to the panelist's suggestion that the larger bloc would have the clout to negotiate balanced trade with Japan and China, a speaker argued that the reverse would most likely happen because the economic growth is and will be in Asia, greatly strengthening the position of Japan and China. Such an outcome could cause the European bloc to turn inward, thus cultivating the very protectionism it wants to avoid. A participant argued that a new NAFTA would be redundant next to GATT and any time spent on creating such a NAFTA would be much better spent on concluding the GATT treaty.

The original NAFTA, however, received strong support from many speakers. A Canadian observed that Canadian workers supported the treaty, in spite of the lower wage base in Mexico. He went on to say, and this was a theme represented several times, that by helping the Mexican economy through NAFTA, the United States would be endorsing President Salinas's leadership in strengthening the Mexican economy, which is being watched and followed throughout the countries of Latin and South America. Indeed, a speaker surmised that within a short period of time, Chile and even Argentina will be invited to join NAFTA. This is extraordinary progress from the dictatorship and poverty once prevalent in many of the Latin American countries and it would be in the interest of the American and European Community to support such developments.

There were several comments on GATT which reflected similar advantages or problems as can be found with NAFTA. If GATT were to fail, the members of the European Community would be inclined to draw back into their original boundaries, both economically and politically, creating a wider gap between Western and Eastern Europe, and reversing the present direction of growth in those newly democratic countries. The same would apply with NAFTA. If it were to fail, Mexico would lose all economic and political achievements which have been gained over the last few years and the backward trend would

ricochet all through Latin America where other governments have been struggling to become strong, independent entities.

Several suggestions were made to remove the obstacles to a successful conclusion of the GATT negotiations. One was replacing the current negotiators with strong leaders, statesmen who would be prepared to strive for the end rather than getting tangled up in the means. A few speakers suggested creating a settlement out of those areas of the proposed treaty which have already been agreed, and leaving the remaining items for a ninth Uruguay Round. One such item was the question of the environment and to what extent environmental concerns should be addressed through the GATT agreement. In the meantime, as one participant said, it would seem important to be ambitious, but not perfectionists; to put forth a good agreement now, rather than striving for an optimum agreement later - one which might never be achieved. A successful completion of this Uruguay Round, as well as NAFTA, would result in positive effects across the board. The borders between Western and Eastern Europe, between Mexico and the United States, between the rich and the poor, would be opened, all of this leading, ultimately to free trade and economic growth around the world.

Responding to points raised in the discussion, the first panelist made several observations. First, GATT was never intended to promote trade for trade's sake; rather to create jobs and accelerate economic growth around the world. The agenda for GATT does not include environmental issues or labor rights because those issues are best left to the organizations created to deal with them; The Rio Committee on the environment and the International Labor Organization on labor rights. The Uruguay Round has already had a positive effect on world trade. New groupings are being formed and new open trade policies adopted, all in the anticipation of an agreement. Unfortunately, however, the present negotiators do not have the necessary sense of urgency, and until the leadership makes GATT the first priority, it will not be concluded. This makes the NAFTA agreement all the more important; with NAFTA out of the way, the Americans will be able to turn their full attention to GATT. On the other hand, if NAFTA were to fail, it is unlikely that the United States would continue discussions with the European GATT members. Without GATT, economic reform would not take place, and without a strong economy, the political systems around the world would suffer lasting adverse consequences.

V. U.S. DOMESTIC POLICY CONCERNS

The moderator, a European, opened the session with the observation that America's concerns are Europe's concerns. Europeans, as they face the need to restructure and revitalize their own economies, cannot question why strengthening the economy is a major domestic concern in the United States. Indeed, it would be desirable for economic revitalization initiatives in Europe to be coordinated with those in the U.S.

The panelist, an American, concentrated his remarks on the forces which led to the election of President Clinton, the nature of his leadership, the priorities of his administration, its achievements in its first 100 days in office, and where it goes from here.

Participants in the discussion offered evaluations of the Clinton Administration's performance so far, both from the positive and negative perspectives. Europeans refrained from criticism for the most part, but voiced particular concern about U.S. foreign policy under the new president.

Panelist's Remarks

President Clinton was elected because a majority of Americans want change and an end to governmental gridlock. In his first 100 days, the President has shown himself to be untiring and ebullient, a believer in government as an instrument of reform. His election has stimulated a new interest in government service, and the important role of his wife in the administration has enhanced the status of American women. The President has forged a close partnership with his Vice President, Al Gore, with whom he shares a common ideology and similar backgrounds, in terms of age, origin, religion, education, and ambition.

President Clinton has taken quick action in several areas. He began, after his election, by appointing a cabinet, whose diversity in terms of gender, ethnicity, and geography, make it "look like America." He reversed certain executive orders of his predecessors, most notably ones restricting abortion. And he addressed the issue of gays in the military.

He also proposed an economic growth plan intended to deal all at once with a range of problems, particularly deficit reduction and long term growth. After early successes in the House of Representatives, the plan encountered a serious setback when the fiscal stimulus portion of it did not survive a Republican-led filibuster.

This reversal has been viewed by some as a disaster for President Clinton. But this is too strong a characterization. It is a setback, from which he can learn, and, unlike an electoral defeat, he has a chance to regroup and come back, with improved legislation and a more effective political plan for its passage. This he must do, by sharpening his message, taking it to the people who elected him, and negotiating with moderate Republicans.

The President may be trying to accomplish too much too soon. He is driving himself and his administration too hard. But he is young, vigorous, intelligent, and learns from his mistakes. He has been down before in his career, and has shown that he can get up and fight on.

Discussion

The first speaker, representing the Republican point of view, argued that the Clinton economic plan relies too heavily on tax increases and not enough on spending cuts, and is therefore out of step with popular sentiment against tax increases and new spending. The impact of the tax increase will be particularly harmful to small businesses, which have been the engine of job creation in the U.S. Support for the President's economic plan is weak even within his own party, which was unable to break the filibuster.

Among other negatives perceived by some in the new administration are an inexperienced, ineffective Congressional relations staff, weak appointments in some cabinet departments, and waffling on free trade. A Canadian speaker was particularly dismissive, stating that Clinton's victory owed less to his own qualities than it did to the lackluster record and incompetent campaign of George Bush, the lack of other strong Democratic candidates, and the presence in the race of Ross Perot.

Rising in defense of the President, an American speaker rejected the notion of political paralysis, and said that the new government is united under a President who has a strong vision for the future. From a business point of view, Clinton understands the need for U.S. companies to be competitive in world markets, and he is committed to helping government, business, and labor work together to achieve this goal. In this regard, he is fully supportive of the North American Free Trade Agreement.

While support for NAFTA is not a positive in the view of the American labor movement, its leaders are enthusiastic about President

Clinton and his Secretary of Labor, Robert Reich, who has undertaken several initiatives, such as a comprehensive review of labor legislation, favored by workers.

European participants in the discussion did not join in the debate about Clinton's performance to date, but they did express concerns about the direction of his presidency. One wondered if, given the ideological diversity of the President's top advisors (from Bentsen to Shalala) and his propensity to please everyone, a clear coherent policy is possible. The sad condition of U.S.-European relations that emerged early in the Carter Presidency was recalled by several speakers, who expressed the hope and expectation that this would not happen again under Clinton. The strongest criticism of the President offered by a European was that he had not shown any real leadership, especially in the cause of free trade, where he seemed to be "waffling and wobbling."

The panelist observed that a certain amount of "waffling and wobbling" and "zigging and zagging" will be the norm in the Clinton Administration. For a metamorphosis has occurred in American politics, which Clinton clearly understands. It is that government in the future cannot come from either the left or the right. Clinton will make an effort to steer a middle course.

As another American pointed out, it is early to accept clear prognostications about the Clinton Administration. It is new, young, not yet settled in, and not adept at using the power that it has been given. But there are some very good people in it, and some very good ideas are being discussed and debated.

VI. THE OUTLOOK FOR JAPAN'S ECONOMY

As Japan continues to grow as a major power, its role in the world economy and international trade becomes increasingly important, particularly as the whole issue of world trade becomes an integral part of international relations. The panelist, a German who is based in Tokyo, expressed optimism that the economic and political turmoil in Japan will soon be resolved and Japan could be moving into one of its greatest economic periods. Although acknowledging Japan's present strength, most speakers were less optimistic about the future, both in terms of Japan's economic stability and its willingness to be a more active player in world trade.

Panelist's Remarks

The developments in Japan over recent years have led to an economy which today presents extraordinary contradictions. On the one hand it has faced, during this period, its greatest difficulty since the oil shock of the 1970s. The financial system has been taken into unfamiliar zones of risk in terms of new investments, the corporate sector finds itself with too much capital stock and an over-capacity which will take a while to work off, and in the face of recessions in Europe and North America, Japanese companies are bleeding abroad. Concurrent with these developments, social, demographic changes in Japan have led to new political pressures which, in turn, have coincided with an international political system going through monumental change.

Therefore, despite a period of essentially full employment, an economy which is running substantial budgetary surpluses, an increasing share in the global market, a rise in household income and after tax corporate cash flows which are running at record levels, the press and the outside world see Japan as having run out of steam, never again to return to its recent heights.

This pessimistic evaluation does not take into account a unique political-economic management system which has a proven ability to pull together the major groups of society which, collectively, are able to focus on key strategic issues in times of crisis. This was most dramatically demonstrated by Japan's response to the Plaza Accord which, in 1985, decreed that Japan had to reduce production costs of its goods by 50% and the production timetable from, for example, twenty

years to four or five. This was accomplished and, in everyone's opinion, avoided the potential of double-digit unemployment in the late 1980s.

This ability to confront potential economic difficulties was accompanied, in the mid-1980s, by a collapse in the price of oil, a commodity which has historically commanded 84% of Japan's import dollars. With such a windfall of "free money" coinciding with a period when the economy grew at the rate of 5.3% and wages only rose by 4.7%, Japan entered the most powerful investment cycle any modern economy has ever seen. From 1986-1991 the larger Japanese companies invested \$3.1 trillion into the domestic economy, \$500 billion into civilian non-military research and development, and another \$600 billion abroad. This combined \$4.2 trillion investment, compared to a total economy of \$2.4 trillion at the time of Plaza Accord, represented a remarkable growth in a relatively short period of time.

Unfortunately, the sudden surplus of funds led to an overly ambitious, and sometimes inappropriately creative, period of investment, leading to side effects which, if left unabated, would have destroyed much of what had been gained in the post-Plaza Accord period. Therefore, in the summer of 1989, a process of purge was undertaken, eradicating the excesses in both the equity market, which seems to have bottomed out and begun its return, and the real estate market, which will take longer before it has leveled off and can begin a new period of recovery. Furthermore, this over-expansion led to an accumulation of bad debts which, fortunately, the Japanese are addressing vigorously.

One of the key reasons for Japan's economic stability over the last forty years has been the loyal support of the Liberal Democratic Party (LDP) by the three main groups in the population: the farmers, the shopkeepers, and the doctors. However, these people are growing older and are not being replaced in their vocations by the younger generations. Instead, the party leaders must contend with the emerging educated middle class, an inevitability that is causing severe conflicts among the older and younger members of the LDP and is shifting the power base to the urban areas. The employee base of Japan's great multinational companies is also demanding a change in the party platforms - a change which acknowledges the importance of trade with Europe, East Asia, and America.

If the LDP is able to resolve these differences, as is probable, the outlook for a strong economy is very encouraging, beginning with

major investments in East Asia. With America investing less today in that region than it did in 1945 and Europe losing its market share by investing at a slower rate than the opportunities available, Japan will be using its edge to gain control of whatever investments seem worthwhile. A look at the inequities of the automobile industry among America, Europe and Japan further underscores Japan's success in penetrating foreign markets.

This success story will not continue, however, if Japan doesn't accept that it must work harder to become a world player. The price of land in Japan must go down so that foreign companies can purchase land and build factories. The heavy surplus income from Japan's exports must be recycled back into the world economy, primarily through free trade. Finally, Japan must face not only the political turmoil within the country but its position in East Asia. If these issues are addressed squarely, the potential for Japan's economy is boundless.

Discussion

The discussion centered on Japan's role in the world economy and the participants' views on the direction it seems to be taking. One factor of Japan's success is the homogeneous nature of Japanese people, who appreciate the importance of sound investments, a firm infrastructure, and a solid education. Other factors which are successful now, but could break down in the long term, are a protected home market, the low cost of capital, and a history of non-participation in military activity around the world. Several participants addressed these points, underscoring the importance of opening the Japanese market. The trade surplus which presently exists in Japan is a major destabilizing factor in the world economy and must be reduced drastically. The recycling of Japanese capital must be worldwide, including Third World countries, rather than merely within the region of Japan. And finally, political reform in Japan is vital. One participant compared Japan's political difficulties to those of Italy, and complimented Japan's determination to move away from the present electoral system to one more closely resembling those of Britain or Germany.

Several participants spoke on how the United States and Europe compare unfavorably to Japan in several key areas. The educational system in Japan is known for its strengths, and several statistics stand out: the statutory number of school days a year is 240

in Japan, 230 in Europe, and 180 in the United States. Even more striking is the percentage of high school graduates; 71% in America, 91% in Germany and 94% in Japan. Another difference is the priorities of Japan's corporate institutions. In America the first priority is the shareholder, followed by the customer and finally the employee. In Japan the first is the employee, then the customer, and lastly the shareholder.

The general consensus of the discussion, among the participants and the panelist, was that Japan holds a very strong position in the world economy and the West would do well by learning from its systems of strength. At the same time Japan has a responsibility as a world player to improve its trade policies and solve its political problems, and one can only hope that negotiations on both fronts will be vigorously pursued.

VII. COST OF INDIFFERENCE TOWARD THE FORMER SOVIET UNION

The moderator opened this session with the observation that the sense of relief which greeted the collapse of the Soviet Union and the end of the Cold War was short lived. Instead of worrying about Russian strength, the West now has to worry about Russian weakness. The centralized control of the Soviet Union has given way to political and economic chaos. What should the West do? What can the West do? Will anything do any good?

An American and a British panelist addressed these questions. Both said that change in the former Soviet Union will take several generations, and that the West has not yet formulated a coherent policy to meet this great challenge. Both panelists also agreed that Russian military power will not disappear, but will be a force to be reckoned with in the future. The British panelist stressed the need for ties and contacts between the West and all levels of Russian society as the best way to keep Russia open. The American panelist argued that the scope for economic policy is limited, and that there has to be a security dimension to Western policy to cope with the very real possibility of Russian adventurism in the other republics, to which the West must also pay attention.

Evident in the discussion was a sense of uncertainty about how much the West could do, and where the focus of its assistance should be. Those who argued for principally economic aid differed on whether or not it should be conditional on certain internal reforms. A number of speakers thought that economic aid was secondary to broad contacts and exchanges of knowledge between the West and the former Soviet republics at many levels.

Panelist's Remarks, I.

In considering the topic at hand, it is important to realize that it was military power that upheld Russian statehood and created the Russian Empire.

The Soviet Union was another name for the Russian Empire. It was a military giant, but an economic and political pygmy. By the late 1970s it was unable to sustain strategic competition with the United States, and the reforms that were instituted wound up destroying the Communist system and the empire.

Today, Russia is a European country and culture untouched by the legal traditions of Rome and the liberal values of the Renaissance. It is hardly sensible to expect it to suddenly become a prosperous liberal democracy.

Looking into the future, Russia will not disintegrate, but will remain a great and unified country. But it has already changed in a very fundamental way: its people are urbanized, educated, and informed about their own country and the outside world. Totalitarian communism will not be restored in Russia, but an authoritarian regime might be.

Post-imperial Russia is not likely to ever again pose a global military and ideological threat. But it will be a great power, if not a super power. So the West will again face a revived and powerful Russia on Europe's eastern flank and Japan's western flank.

An authoritarian, illiberal, militarily powerful Russia would have ample opportunity to cause trouble around the world, particularly in the Balkans and in regions where Russians live. So the West has an obvious interest in a liberal, democratic, prosperous, status quo Russia, not to mention a strong economic interest in its unexploited natural riches.

Russia today has an unprecedented opportunity to create a modern, civil society. The problems are obvious: no culture of private enterprise or ownership, inadequate administration, entrenched interests opposed to change, and the need to do something with the enormous defense industry. But there is a new openness and a large number of educated, competent people, many of them already making their own way forward. There is no alternative to reform if Russia wants to compete.

The task is nothing less than to change a whole culture, and it may take three generations. In considering what to do, the West must recognize that change cannot be driven from the outside; it must be willed by the people. The right answers, when they are discovered, will be hard to apply, but the right questions have not even been asked yet. It is wrong to say the West has acted too slowly and done too little. Starting with the political relationship in the late 1980s was the right strategy. The serious economic reforms only began in 1990, and the difficulties have become more evident since then.

If the fundamental change is the opening of Russian society, then one of the most important things the West can do is to keep it

open. This involves contacts and exchanges at all levels, not just between businessmen, but between ordinary people.

Panelist's Remarks, II.

That indifference toward the former Soviet Union is a sensible policy option is no longer argued. The issues today are where do we get the capital for economic assistance, and will it make any difference.

We have to do something, but we must avoid doing things that make conditions worse. Direct aid can have the effect of shoring up the very institutions that ought to dissolve. The only kind of direct aid to governments that avoids this is provision of hard currency to back local currencies, and then only if the printing presses are stopped, removed from political control, and put under independent currency boards.

The second type of aid the West should give is direct ties between Western businesses and local firms in the former Soviet Union. Results will be slow, but this should not deter us. We should also give technical assistance, particularly political advice.

But these kinds of aid are unlikely to induce democracy in the former Soviet states. Some of them will inevitably revert to dictatorship, which would not be so bad, as long as they were dedicated to privatization, free markets, and legal reform.

The West views the challenge of assisting change in the former Soviet Union too narrowly, with a time horizon that is too short and a policy scope that is too limited. Russia will require one or two generations to make the kind of transition both we and the Russians would like to see. It is a challenge that will be with us for a long time.

We need to expand our policy scope to include more than economic assistance. We should take a deeper look at the dynamics at work in the former Soviet Union, anticipating critical junctures and seeking occasional points of leverage that we might exploit for positive outcomes.

Russia, unlike other European empires, did not pass through a decolonization phase in the early and middle part of this century. Empires that evolved along liberal lines, like the British Empire, did not remain empires. Other post-imperial states went through periods of intense nationalism and sometimes authoritarianism before emerging on a liberal economic path, and later a liberal political path. In this sense, if democracy fails to develop in Russia, Ukraine, or the Baltic

republics, it is not necessarily tragic, depending on the kind of authoritarian rule that occurs.

But it would be tragic if the old Russian imperial impulse successfully reasserts itself. It would not quickly create a new military threat to the West, but it would ensure that a new authoritarianism would not evolve on liberal lines. This implies that we need a political and security component to our strategy to parallel economic and technical assistance. We must think about what we can do to prevent the restoration of the empire.

It is Yeltsin, not Gorbachev, who broke up the Soviet empire. Whether he is a democrat or not is trivial. He is an anti-imperialist. His management of relations with the other republics has been remarkable. But his capacity to follow this course is falling into doubt as his political strength declines. Thus we cannot continue to bet on Yeltsin alone.

The West should pay much greater attention to the initiatives of the leaders of the other republics to unite against Russian interference. The emerging strategy of the Russian military, encouraged by certain reactionary politicians and groups, is to destabilize, divide, and conquer. In addition, the Central Asian republics, ruled by former communists, have essentially turned over their security to Russia, reinforcing ties with the military, the Ministry of Interior, and the KGB. Even Armenia is now a proponent of much of the new Russian military doctrine.

The cost of indifference to these developments will be much higher than indifference to economic realities. But building a Western consensus to do something about them might make support for economic assistance look easy. And some will argue that Russian hegemony in Central Asia and the Caucasus is preferable to civil wars there. But this condemns Russia once again to the imperial predicament, ruling out all chance of a liberal development in the former Soviet Union.

There are several things the West can do to build a security component into its strategy:

- (1) Admit Poland, the Czech Republic, and Hungary to full NATO membership now.
- (2) Stop pressing Ukraine so hard on removing Russian nuclear weapons, which may contribute to preventing Russian adventurism.

- (3) Develop ties with Georgia that signal support for Shevardnadze and Georgian independence.
- (4) Work with Turkey on its strategy for Azerbaijan and Central Asia.
- (5) Take Russia permanently into the G-7, and use that group to address the big issues of Yugoslavia, the Middle East, and the defense of the independence of the former Soviet republics. The G-7 plus Russia could become the international forum for designing a new world order.

So far, all that has been proposed in the West is paying off the right-wing Russians to make them behave and lecturing the center and left on democracy. Meanwhile, most of the other republics have been largely ignored. We have not yet begun to think through an effective strategy for avoiding the high cost of indifference to the former Soviet Union.

Discussion

The situation in Russia and the other former Soviet republics is bad and rapidly getting worse, in the view of most participants in the discussion. Gas and oil income is declining, debt is high, inflation is rampant, capital is flowing out, and there is a wave of crime and corruption. It is a picture of general disintegration and turmoil. The cost of Western indifference to this sorry state of affairs will be increased threats to world peace and stability, environmental degradation, and pressure from immigration, among other problems.

One school of thought favors Western investment on a massive scale in order to stop the downward spiral. Western governments should provide credits, loans, aid, guarantees, etc. The magnitude of such aid should be on the same scale as the Marshall Plan. The short-term challenge of such an effort will be great, but the long-term benefits of opening these economies will be huge.

Some speakers advocated economic aid conditioned on reform, particularly in the areas of pricing and privatization. The West cannot help a Russia (or other republics) that will not help itself. The governments must take steps to rein in hyperinflation by empowering the central banks, to develop the private sector, to improve public administration, to build infrastructure, and to do the other things necessary to create the conditions for a market economy.

Others argued that there is a danger in insisting too much on conditions that may be unrealistic for a society that has no experience of democracy or free markets. The West cannot expect the former Soviet republics to build up free markets and democracy by themselves. Assistance is a question of more than loans and guarantees. It must encompass, through exchanges at all levels, the transfer of knowledge in business, public administration, security policy, nuclear safety, energy, and many other areas. The ability of Western countries to help in these areas is great.

The need for contacts and exchanges is particularly important in containing the ambitions of the Russian military establishment, which is now in a state of confusion, lacking confidence, uncertain about what it wants but certain about what it does not want. It must be a high priority to couple the Russian military with the West, through some sort of collective action, focused on NATO and the North Atlantic Cooperation Council.

With respect to Russia, the West may be focusing too much upon Yeltsin, whose position has grown steadily weaker. We should be prepared for a change in leadership and be just as ready to work with someone else, rather than put all our hopes in the person of Yeltsin.

Similarly, we should avoid being seen to be preoccupied with Russia at the exclusion of the other former Soviet republics and the countries of the former East Bloc. The latter in particular are increasingly looking West and do not wish to be seen as being in a group with the former Soviet republics.

Finally, the debate about what to do is perhaps based on too gloomy an outlook. Much has already been accomplished in the former Soviet republics in recent years, with less turmoil and violence than might have been expected. Change will take generations, but the generational change is already underway, with those under 40 now adjusted to the new way of thinking in Russia and the other republics. And there are unmistakable signs of capitalism to be seen in many parts of the former Soviet Union.

VIII. CURRENT EVENTS: ITALY

The moderator, in introducing the topic, underlined its significance by reminding the participants that Italy remains one of the principal roots of our civilization and of great economic importance, to say nothing of its early role in the European unification movement which began in the late 1980s. At the same time, one cannot ignore the flaws in Italian politics which have been apparent for many years but which have been dramatically exposed over the last few weeks, leading to a major call for change in the referendum of April 18.

The panelist, an Italian who has played a major role in both the public and private sectors of Italy, outlined the political climate prior to the referendum, the measures being taken to eliminate the conditions which caused the abuse of political power, and his view of the direction in which Italy is most likely to go.

Panelist's Remarks

For the last forty years, Italy has stood at the frontier between East and West, between communism and democracy. The Communist Party has not been able to cross this frontier in Italian politics at the national level, which has resulted in no change of leadership between the government and the opposition throughout the cold war. However at the regional and administrative level, beginning in the 1970s, there has been a gradual but continuous involvement of the communist party, the main political opposition, thus creating two contradictory elements in Italian politics.

With no opposition at the national level, the government has assumed a growing sense of impunity which has led, in turn, to widespread illegal funding. Although illegal funding can be found in almost any democracy, it reached extensive proportions in Italy and opened the way to important electoral influence by the Mafia.

Ever since the recent collapse of Soviet Communism, there has been an increasing belief in Italy that crucial changes in the political system might finally be possible. New political forces, in particular the Northern League, have entered the arena, seeking a change from a unitary state into a federation. The judicial inquiries into the political corruption in Milan, known as "Clean Hands" has, through its process, swept aside almost all of the political leaders, in turn affecting the main political parties because all of them, including the former Communist

Party, were involved. Everyone, to one degree or another, has participated in illegal funding. Even when the sums involved were minor, as was the case with some corporations and individuals, they were still considered corrupt if they had not been declared to the Parliament.

Although some have called these events, and the call for change, a form of revolution, the actual process has had four elements which are not characteristics of revolutions as we know them. In this situation the protagonists are the judges and the voters, there is no undisputed leader, there were no preconceived plans, and the process has been non-violent.

So where does Italy go now? What is certain is that the political system which has been in place since the war is on the way out and another is being created. Although many questions remain to be answered, an overwhelming majority of the electorate made its opinions quite clear, in the referendum on April 18, on some of these matters; the State's role in the economy must be reduced and the public financing of political campaigns must be limited only to electoral campaigns. Of particular importance is the fact that 82% of the electorate voted in favor of a new, "first past the post" electoral system for 75% of the Senate, the other 25% to be elected by the proportional system in order to save the existence of small political parties. This will undoubtedly lead to a new electoral system in the House, based on the English or French model, and many members of the House may see their political future threatened by this change.

Another important vote in the referendum was to abolish the Ministries of Agriculture and Tourism, placing the responsibility for these two important economic segments in the hands of the separate regions around the country. The growing regional power in Italy will be a significant force in the years ahead.

The next important steps in this process will be the appointment of a new Prime Minister, and the local elections on June 6. These elections, involving 12 million voters will, for the first time, use a majority system very close to the French one. They will signal the changes in the political spectrum. Will the Christian Democrats remain in first place or will that pass to the Democratic left? How big is the real power of the Northern League? And what are the chances of Mario Segni, a strong candidate for Prime Minister, creating his own electoral power?

In spite of this major upheaval in Italian politics, one must not forget that Italy's rate of growth over the last 50 years has been second only to that of Germany in Western Europe, making it one of the most highly industrialized countries in the world. It has always chosen democracy over communism and it was an early supporter of the European Monetary System. One can be assured that Italy will conquer political corruption and organized crime, and remain a vital part of the European scene.

Discussion

Several speakers expressed surprise that the panelist exhibited optimism while at the same time putting forth questions which were also on the minds of the participants. Will the politicians who are being removed be replaced by subordinates who don't have the same experience and might well have the same bent for corruption? Will the regions, in a country which is more asymmetrical than most, work for Italy as a whole - and as a member of the European Community - or for the interests of the particular region? What will be the political coloration of the new forces that might arise; what will be the new ideological content? Will the ethnic groups which to date have been accommodated by the ruling party maintain their status in the next "second Italian Republic"? With the internal solidarity of Italy giving way to regional supremacy, what will happen to Italy's role in Europe as a whole? Will the external cohesion with the other European countries be damaged by the diminishing internal cohesion? And is not the judicial system gaining too much power, at the expense of the people and any politicians who have not participated in the corruption?

One participant, also an Italian, sought to balance the political corruption with the positive economic changes in Italy which bode well for the country's financial stability. Until recently Italians were required not only to keep their funds within Italy rather than placing investments abroad, but were further limited to investing their money in government securities, giving the government easy access to funds which led to the inevitable government debt. All that is over now, as a result of the introduction of the European Community single market. The political class has had to withdraw from its financial monopoly, serious efforts to reduce the deficit have been initiated, and privatization efforts have begun. The deep change in Italy's political and civilian life is not only a result of the fall of communism but the

arrival of European integration; not only the fall of the Berlin Wall, but also the creation of a single market.

Responding to a number of questions that had been posed, the panelist stated that one should not be worried about who will succeed the politicians who have been removed from office but how to make political life attractive to the younger generation. The system needs to be changed so that public service will again become of importance to those future leaders. On regional independence as opposed to Italian unity when dealing outside Italy, it is true that there is a contradiction here but there is no reason it will not continue to be managed as successfully as it has to date. The economic integration of Italy into the European system will not only decrease the possibility of political corruption but enhance the standard of living within Italy and contribute importantly to Italy's role in the European Community.

IX. FOREIGN POLICY CONCERNS OF THE CLINTON ADMINISTRATION

The European moderator observed that, as in domestic matters, the concerns of the United States are the concerns of Europe, and Europeans are wondering what the Clinton Administration's foreign policy will be, especially with respect to such matters of European concern as trade, NATO, and Yugoslavia.

In his remarks, the panelist, an American, sought to clarify the foreign policy objectives of the Clinton Administration by describing its three underlying concepts: restoring America's economic strength, redefining the role of the U.S. in the world, and supporting democracy and human rights.

The discussion focused principally on the uncertainty, especially in Europe, about Clinton's foreign policy objectives, and what changes there may be in the U.S.-European partnership.

Panelist's Remarks

Clinton's 100-day report card in foreign policy is quite good, considering he inherited an international agenda filled with ticking time bombs, ranging from Russia in disarray to the probings of an unrepentant Saddam Hussein to the failure of peacekeeping in Bosnia to the continuing humanitarian effort in Somalia, and on. He has been faced not by one big challenge like the Cold War, but with a thicket of problems in a disordered new world, and he has not made a single foreign policy blunder.

Clinton foreign policy may be thought of as having three pillars. The first is the revival of U.S. economic strength. In the post-Cold War world, economic strength will be as important as military strength. Clinton is not an isolationist, and has no inclination to withdraw from the world. But he aims to get the American house in order and to enhance its ability to compete in the world economy.

When the Soviet threat overshadowed everything else, the U.S., as leader of the Western alliance, was willing to carry a disproportionate burden in order to maintain an open international economic system. With that threat gone, the allies of the U.S. are its major economic competitors, and Americans are no longer willing to turn the other cheek to unfair barriers or competition. The time has come to negotiate a new partnership with Europe and Japan that more

equitably divides the burdens and responsibilities of maintaining an open world economy.

Success in the GATT talks is crucial to that objective, and it tops the list of the U.S.'s international economic concerns. A close second is a reduction in the structural trade deficit with Japan, and completion of the North American Free Trade Agreement is the third priority.

The Clinton administration is fully committed to maintaining the U.S. commitment to NATO, but it feels the Western allies must get their economic relationships right, and be guided by the watchwords of reciprocity and responsibility.

Clinton's second foreign policy pillar calls for updating American forces and security arrangements to meet new kinds of threats. The Soviet threat is gone, but there are plenty of dangers to U.S. interests and to international peace in this new era. Two particular challenges are the disintegration of the post-World War Two system of states into religious and ethnic conflicts, and the proliferation of weapons of mass destruction, especially into the hands of anti-Western dictators.

The Clinton Administration seeks to meet these new challenges with preventive diplomacy, enhanced peace keeping and peace making, and multilateralism. There must be more aggressive American diplomacy to address potential conflicts and dangers before they explode and endanger Western interests. This can be employed in the Balkans now, and it is the basis of the U.S. renewed involvement in the area of Arab-Israeli relations.

Preventive diplomacy is closely linked to the need for enhanced peace keeping and peace making capabilities. The proliferation of intra-state conflicts requires a more robust and timely international response. No single nation has the direct vital interest, the resources, or the authority to deal with most of the conflicts that are likely to explode in this decade. But the United Nations and the other multilateral organizations don't have the capability either.

Clinton wants to enhance those multilateral organizations, particularly the U.N., which will have to develop the capability to respond to conflicts quickly, with a sufficiently large and strong force which will have to be involved in enforcement as well as peace keeping.

NATO also plays an important role in the Clinton Administration's thinking. Its core function of providing collective defense for its members in a still uncertain strategic environment

remains vital. But NATO must also help address security threats Europe is more likely to face--not a large scale land war, but more Yugoslavias.

The third pillar of Clinton's foreign policy is promoting democracy, human rights, and free markets. This is the core of his foreign policy philosophy. He believes that a central lesson of the 20th century is that democracies do not make war on other democracies. But he knows he cannot seek to impose democracy in places where the results can only produce violent instability or where the necessary social and economic conditions are non-existent. He will seek to make progress where it is possible.

A democratic Russia would be the grand prize, and Clinton will continue to commit resources to Russia's revival. If Russia can be integrated into the democratic community, it will make the other threats more manageable. Clinton knows how tough it will be to reform Russia, and he believes Western joint effort will be necessary.

Clinton's foreign policy is centrist, in the mainstream of American internationalism, and adapted to the challenges of an uncertain new age.

Discussion

A common theme in the discussion was concern that the Clinton Administration has not yet really defined its foreign policy. What is the strategic design, the grand strategy? So far, it seems that foreign policy is being shaped by events, rather than the other way around.

A series of observations about Clinton's foreign policy were made by American speakers. The Clinton Administration no longer has the luxury of blaming its foreign policy problems on the unfinished business of the Bush Administration; the problems are Clinton's now. And while the President will have bipartisan support for his foreign policy, he is likely to have more difficulty with legislators in his own party on such issues as trade, Most-Favored-Nation status for China, and burden sharing.

Two particular failings are hindering the development of Clinton's administration. One is that fact that, while the foreign policy teams at the State and Defense departments and the National Security Council are first rate, their effectiveness is hindered by the failure to complete lower level staffing. The other is that Clinton has not yet

carried his vision to the American people about the future role of the U.N. and new kinds of collective security arrangements.

Europeans expressed particular concern about the mixed signals coming out of Washington. There was a sense of relief that, in his first 100 days, Clinton has avoided the kind of conflicts with Europe that marred the same period of the Carter presidency. But there hasn't been much leadership, either, at a time when, in a German's view, U.S. leadership is more important than ever.

But, said an American, U.S. leadership has entered a new era, one in which it can no longer set the policy and bring Europe along, sometimes by dividing Europe. The transatlantic relationship must now have a European partner that is truly united, and capable of saying "yes." Europeans heard this as a call to get on with European integration, a process that U.S. foreign policy should make it a priority to support.

In this new era, the U.S. was seen by some speakers as having to adapt to a role it is not accustomed to: peace keeping, peace making, and, in some cases, non-intervention. Rather than becoming involved in intractable problems like Bosnia, said a Briton, U.S. foreign policy should concern itself with Russia, the Middle East, and trade. Add to this, suggested an American, a new focus on Asia.

The American panelist concluded with the observation that the Clinton Administration faces a disorderly world, in which it is harder to have a strategic vision than when the world was strictly bipolar.

X. CRISIS MANAGEMENT

The moderator introduced this session by noting that although the last 45 years, known as the cold war period, were disagreeable, expensive, and sometimes dangerous, they were also predictable. On the whole, there was a continuous grand strategy between the two super powers which prevented the sort of crises which have arisen in the last few years. In fact, if the two super powers still existed, it is doubtful that the invasion of Kuwait would have happened, nor the problems in Yugoslavia. Instead, after the initial euphoria over the break-up of the Soviet Union, the world is confronted with new and very difficult problems which must not only be addressed individually but which call for a new international strategy to control.

Panelist's Remarks

The end of the Cold War has not brought with it the beginning of a new world order, which had been the expectation around the world. On the contrary, a whole new set of crises has emerged which may well have been held in abeyance with the fear of intervention by one of the two world powers. Now we are faced with the problem of how to confront these conflicts, which cannot be allowed to escalate. If we fail to respond, we would be condoning aggression as the means of negotiations; our peacekeeping entities such as NATO and the UN would appear to be useless; and conflicts such as the one in the former Yugoslavia would not burn themselves out but escalate into wider and deeper confrontations, with disastrous outcomes. Thus, we are faced with the responsibility of crisis management, an approach which could be said to have four criteria: legitimacy, the appropriate institutions, political will, and public support.

First, there is the question of legitimacy. Although we are far from clearly defining international law, we cannot remain passive if: a state is attacked by a powerful neighbor; a national government collapses leaving widespread violence; governments or groups commit human rights violations on a genocidal scale; a government sponsors terrorism; or if an entity develops weapons with the potential for massive destruction. All such situations not only permit but require intervention by whatever peacekeeping method is called for.

Second, the institutions in place -- the UN, the CSCE, the European Community, WEU, and NATO -- play an essential role in

building support within the international community for a certain course of action. It is important that they work together, and interact efficiently, on whatever measures are needed: sanctions, peacekeeping forces, or negotiations. The scale of the United Nations' peacekeeping operations has quintupled in the past two years, generating many unanswered questions. The line between peacekeeping and peacemaking has become very gray and needs to be better defined for each situation. The United Nations' experience in the former Yugoslavia reminds us that diplomacy or economic sanctions alone cannot always stop a determined dictatorship. We have learned, perhaps a little late in the case of Bosnia, that the avoidance of a limited use of military means at an early stage results in a far greater military involvement in far less favorable conditions later on. The earlier one is prepared to stand up to a bully, the less force it takes. Therefore, more emphasis must be placed on conflict prevention through anticipation and quick responses, such as has been seen with the preventive deployment in Macedonia. All threats, military or otherwise, must be backed up by credible actions and, we must be flexible enough to adapt, if need be, to a form of action which can fall anywhere between total abstention in a problem area and total involvement. A weapons embargo for the victim is not an equitable approach to a solution.

Above all, it is vital that we remain realistic. Even a vastly strengthened UN cannot do everything. It is overburdened, underfinanced, and not able to cope with complicated military tactics. It is sobering that Europe has been unable to handle the Yugoslav conflict effectively, demonstrating a lack of military strength, political will, and determination. The members of the European Community seem to have been paralyzed into inaction by an inability to arrive at a consensus on the appropriate response to the situation in Bosnia.

This leaves the United States or NATO to assume a lead role in managing crises in the future. The US cannot be expected, nor would it be able, to deal with every crisis that comes along, which is why NATO should be recognized as the most logical military support system. Over the last few years, with the end of the Cold War, NATO has embarked on a major transformation to meet the future needs of its member countries. Therefore, if one accepts that the strength can be placed in NATO, what is still lacking? Strong political leaders or, put another way, political will - the third of the four criteria outlined earlier. Without political will, one cannot arrive at a consensus;

without a consensus - as demonstrated in Europe last year on the Yugoslav question - one simply cannot be effective. NATO alone cannot operate without the unified support of its member countries, both militarily and on whatever missions are undertaken.

Finally, any political, military, or economic action by a country must have public support. It is the responsibility of our leaders to outline, clearly and understandably, the changed environment we face today and the need to bring our respective security systems into current readiness.

Discussion

All of the participants reaffirmed the important role NATO will continue to play, and the need to support it. In that context, the range of questions and statements was wide and direct. To start, a European asked, 'Who or what is NATO? Not Germany, which prefers proactive forays as opposed to defense; probably not France, which cannot decide whether it is in or out; probably not Greece or Turkey, who guard their troops for their more immediate area. Does that leave the United States to shoulder the responsibilities?'

Another speaker underlined the importance not only of a collective military instrument, but strong political guidance. If NATO were to build military structures in other places around the world, those on-site institutions would have a better understanding of a problem, and would be better prepared to carry out the solution, whatever that might be. Several participants supported such a proposal but felt it was unrealistic. One person used the current example of a peace-keeping force in Liberia which has been unable to prevent a slaughter.

Several participants acknowledged that a major reason NATO seems to have lost its backbone is that member countries lack political will and a consensus to achieve common goals. As with the difficulties in the GATT negotiations, Europe seems unable to present a common foreign policy and this, in turn, impedes unified support of any NATO undertaking. Finally, a participant asked the panelist to address the specific focus NATO will take in this changed world. How far afield does it plan to go? Would it be accurate to describe the change as moving from an organization for collective self defense, to a collective world policeman? Will the NATO treaty have to be changed to accommodate this new direction and how will decisions be made on when and where to move into any world crisis?

The panelist responded to the first question; what is NATO? It is a community of nations which has developed a partnership over time. During the Cold War there was a clear leader, the United States. Although the United States continues to exert leadership, the Americans are the first to recognize the imbalance between the United States and Europe within NATO and they have reduced the American troop strength and recognized the growing European influence. It will be years before an equitable balance is reached, and during that transition some degree of American leadership is essential. In the meantime, the Europeans have the opportunity to develop a real foreign security policy which can be used as the guidelines for NATO.

Responding to one speaker's suggestion of building military structures around the world which could oversee local crises as needed, the panelist agreed with the thought and disagreed with the possibility. NATO must limit itself to focussing on neighboring countries, not only to avoid the impression of being a world policeman but to preclude the risk of stretching beyond its means. Mr. Nazarbayev, the highly impressive President of Kazakhstan, has tried to promote his ideas of building a regional security structure similar to NATO, confirming that this subject is of great concern around the world. An example of the importance of NATO has been the recent crisis in Yugoslavia, where if the Europeans had spent less time on rhetoric and more on deed, the present situation might be considerably improved. The inability to enforce the sanctions has been a striking example of the lack of unity among the countries over policy towards Yugoslavia.

In order for NATO to continue to be effective in its new role, it needs a firm mandate from its membership to provide legitimacy to its activities. This would enhance public support and strengthen its credibility. It is not in competition with the CSCE, which is a useful forum for preventive diplomacy. But the CSCE does not have a security council and one can envision the impossibility of getting a consensus of 53 nations without a security council, especially when one or two of those nations might be part of the problem! NATO will continue to concentrate on those fields of expertise not found in the CSCE: helping the Eastern and Central European nations integrate their military into demographic structures, helping them to develop a new strategy, and helping them to develop defense budgets. The two new tasks of NATO, in short, are to project stability to the East, and to handle crisis management. The primary task, as has been for 44 years, is to provide security for its member nations.