

Knowlton file

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

~~SECRET~~/NODIS/XGDS

MEMORANDUM OF CONVERSATION

PARTICIPANTS: President Nixon
 Vice President Agnew
 Christopher Soames, EC Commissioner
 William P. Rogers, Secretary of State
 George P. Shultz, Secretary of the Treasury
 Roy L. Ash, Director, Office of Management
 and Budget
 Elliot L. Richardson, Secretary of Defense
 James T. Lynn, Secretary of Housing
 and Urban Development
 Peter M. Flanigan, Assistant to the President
 Brent Scowcroft, Deputy Assistant to the
 President for National Security Affairs

DATE AND TIME: Friday, February 16, 1973
 9:30 a. m.

PLACE: Cabinet Room
 The White House

SUBJECT: Cabinet Meeting: Vice President's Briefing;
 Trade Relations; Aid to North Vietnam and
 Amnesty

The President: Ted?

Agnew: Thank you, Mr. President.

Thieu will probably have to cut his military in half and find
 employment for them. They're about 500,000.

I think President Thieu should address the American people
 when he is here, just as the President did in Russia.



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CLASSIFIED BY Brent Scowcroft
 EXEMPT FROM GENERAL DECLASSIFICATION
 SCHEDULE OF EXECUTIVE ORDER 11652
 EXEMPTION CATEGORY 5(b)(3)
 AUTOMATICALLY DECLASSIFIED ON Imp. to Det.

DECLASSIFIED
 E.O. 12958, Sec. 3.5
 NSC Memo, 11/24/98, State Dept. Guidelines
 By let, NARA, Date 1/12/00

In Thailand, Thanat has left the government. He likes to consort with the Communists and is writing criticizing Thanom for his affinity and ties with us. General Praphat -- the number two man -- is being positioned as a neutralist between the two, so he could go in either direction.

In Indonesia, Suharto seems to be in a tug of war with Malik. It's the military versus the civilian. We must continue our efforts in Indonesia, but they will never be as supportive of us as Thailand.

There are bad frictions between Malaysia and the Philippines -- over Sabah and the Sulu Islands.

We should continue to aid these countries and exert our presence. Helping them help themselves will reduce the possibility of insurrections, etc.

The ceasefire saves us \$2 billion a year. Investing that in the area is the best investment possible for those funds.

Rogers: We must recognize that these people tell American visitors their problems, not their successes. Their interest is in frightening us.

Everything is relative. A few years ago Indonesia was thought to be going Communist forever.

Note that when things are best -- Singapore and Malaysia -- that is where the Chinese are many things. Damn clever, these Chinese.

Richardson: Will we get an aid program?

Rogers: Yes.

Richardson: Isn't it true that if Indonchina stabilizes, the Thai might not want us to reduce our presence in Thailand?

Agnew: Yes, but the Thai don't count on that very heavily.

Richardson: From our standpoint, we don't want to reduce until we see how things go.



Agnew: B-52D can't fly from Guam, so we really need the Thai bases.

[President returns with Soames.]

Soames: The upcoming negotiations are enormously important, especially from the political standpoint.

The important thing is if this leads to a political confrontation, no trade gains can counterbalance the damage that is done.

Here I have the impression the United States expects unrequited concessions because of its adverse trade balance. The British had an adverse balance for a long time. We didn't take this position, but we got on our hind legs and fought for markets.

It would be a great pity if the undoubted difficulties with Japan -- and we have them also; they are moving into Europe -- continue. They take sections of the market in different countries. We can't let this go on, but we can't gang up on Japan -- but we have to open up the Japanese market. That is the only solution.

In presentation of your trade bill --

-- I hope it is a trade liberalization bill. Of course you need safeguards, but the bill should be liberal with safeguards, not vice versa.

-- With respect to Europe, look for doors which could be opened; don't think of locking doors.

The President: It is important for all to know that there is a strong isolationist sentiment both here and in Europe. We will not give in to that, and we don't want a confrontation -- with Europe or Japan.

As world tensions abate, we must realize this couldn't have happened if US-European relationship had not been strong.

Nothing could be more harmful than if we let economic competition offset our political and security relationships.

[Soames and the President left at 10:44. * -The President returned at 10:45.]



Rogers: I think the Thai know we are going to stay.

The President: What did you think of Soames?

Rogers: He's good, but I told him if we call a bill a liberalization measure, it will never get through Congress.

The President: Yes, I told him that Agriculture would dominate Congressional action, and if they don't give on agriculture, there'll be no bill.

Rogers: Soames is a good man and it's good to have a single voice for Europe to speak with.

Shultz: It isn't true that our problem is just with Japan, our balance of trade with Europe has deteriorated more recently than with Japan.

He says we shouldn't lock doors. Most of the locked doors are theirs -- in agriculture, computers, etc. They have to unlock the doors.

Economic factors mean a relentless push, and unless they are handled they will push everything aside. We're reaching the point where aid recipients won't take aid in US dollars anymore. Rich as we are, if we don't have foreign exchange, we can't give it away, so there is a big stake for us in the economic and trade aspects.

The President: Soames has a point. Because the American market is so rich, our companies have not pushed foreign trade adequately.

American companies set up too many multinational companies, instead of manufacturing in the US and exporting, so we don't export jobs.

In the end, the fundamental issue is whether or not we have competitive companies and costs in the world. Devaluation, etc. are symptoms, not the cause. This is the cause and we must get at it.

The Japanese have controlled the economy and they can pick off various markets with loss leaders,

We will probably have Tanaka here, and the Emperor, but Japan is not being a good partner. And Europe. We must find a way to get at this.



Ash: There are things we can do, but it will be a tough fight.

The President: George is the biggest free trader but for me, but we have to make our economy competitive.

Rogers: How do we give the American industry incentive to export, when the market here is so easy?

Ash: That's a good point, and it's especially difficult with smaller companies.

Rogers: Labor says the multinational companies export jobs and the product still comes into the US.

Ash: That's true, but the alternative is to have foreign-owned companies send those same products into the US. This way, we at least have the investment, if not the labor. If we are to lose markets, it's better to retain half.

Technology is no longer exclusive to the US. It's knowledge, and it's equalizing around the world.

The President: While our exports are only 4% of our GNP, that can be the cream of our profits.

Flanigan: Over 19% of our production is for export and that is large.

The President: I want DOD to look hard at this. Where small countries are going to buy arms anyway, let's not let them be French, British, etc., but American.

What tipped the balance in Indonesia was the Indonesian military. We had resisted stopping military aid in Indonesia just because of Sukarno, and this was important.

When people like Peru want an aircraft, they want the most sophisticated. Smaller countries need different arms programs from what we need ourselves.

Even for us, but mostly for allies, we are pushing too exotic weapons. I applaud the development of AX, for example.



Richardson: I am investigating Congressional restrictions on these sales. We should approach the Congress on a balance of payment basis.

These countries will buy anyway, and they should be ours.

The President: Have the Navy look into the Styx missile and its little boat. Why sell battleships when this would do?

The highest priority for CIEP is to find how to make American industry be competitive in the world.

If the US turns inward, the world will be in a mess, because the Soviets and Chinese still look outward.

George, go ahead.

Shultz: We have had a basic plan for revising the system.

We closed the gold window last August. We then achieved the Smithsonian agreement.

We must talk not only about deficits, but also surpluses. We must talk not only of the monetary system, but security, aid, and everything. The monetary system can't carry the load by itself.

We should try to get away from controls on capital.

We tried to put our philosophy into operation to meet this crisis. We had a group -- Roy, Schlesinger, Flanigan, Burns. These are the possibilities:

-- A joint float by Europe.

-- Unilateral action by US. We preferred this but would accept either.

We couldn't be hurt because the gold window was closed. Europe and Japan had to bite the bullet. With Japan it was a 35-40% change in exchange rates. With Europe it was a 20-25% change in exchange rates. The real change in the rate is not this big, but it is still substantial.

We have to worry now about domestic prices. Devaluation tends to raise the price level.



The President: What is a safeguard system?

Shultz: Protection against inundation by a particular product.

A natural increase is okay, but not a precipitate one. The Hill must have a procedure for determining when this is excessive and give the President authority to act swiftly. The President could declare an emergency and either apply a general surcharge or a particular one.

Also, we may change the present authority to retaliate -- to broaden it.

The President: We want bargaining chips to help us in our negotiations. These negotiations differ from the Kennedy Round in that this time we can go up as well as down on tariffs. We want freer trade, but we won't jeopardize American jobs and business.

Lynn: We must reorganize that, once we have Presidential authority. The pressure from individual companies for increases will be tremendous.

The President: We can't save really non-competitive industries. Just those which are basically sound.

The next subject is aid to North Vietnam and amnesty.

Bill [Rogers], circulate your words on these subjects.

North Vietnam aid will be tough to sell. After World War II, the liberals supported aid to Germany and the conservatives opposed. Now, the liberals are opposing aid to North Vietnam with the same arguments that the conservatives used against Germany in 1947.

The old internationalists have become the new isolationists.

Aid to North Vietnam is not being done on a humanitarian basis but for pure national interest. Aid will draw them toward their own problems, have them turn inward, and will give us some measure of influence over their behavior.

We are also working on the Chinese and Soviets to pressure North Vietnam, but this must be done privately.



Rogers: Tell Congress to wait until they know what we want and why.

We have spent so much. Why let it all down the drain now?

The President: I would like every member of the Cabinet to take the Rogers line. Don't ask them to support it now, but just to keep quiet. Wait and see.

Multilateral aid gives no leverage.

Tell Congress that others will help, but bilateral aid is also important. Also, it's to maintain leverage.

Put it in terms of aid for all of Indochina, but for leverage with North Vietnam.

Rogers: Particularly say shut up until the prisoners are home. Aid was in the agreement.

The President: An excellent point. Also, the Johnson Administration began this. If everyone will wait until the prisoners get back, this will give us time to turn some people around.

Ash: People want to know where the money is to come from.

The President: Hold it close now, but I will say that aid will not come at the expense of domestic programs; it will have to come from the national security budget.



JVP Brief to Cabinet 16 Feb 1973

9:30 am
(1hr)

Thier will probably want to cut his military in half
and find employment for them ^{about} (500,000)
Agnew said Thier should address US when here also
Nixon in Russia.

Thier has left part - likes to export w/ ^{Comrade} & is
~~not~~ criticizing Thier for US ^{offense} ties. Gen
Propert is being portrayed as a neutralist ~~so~~ but
c = so he could go in either direction.

Subanto seems to be in a tug of war w/ Malik (Ind vs China)
We must continue our efforts in Indonesia, but they will
never be as sympathetic for as Thailand.

Bad relations bet Malaysia & Phil - Sabah/Sulu Is.

We should continue to aid these countries & exert our
presence. ~~That~~ Helping them help themselves will
reduce possibility of insurrection, etc.

Close five some us \$2 bil/yr. Assuming that inc. over
is a best investment possible for those funds.

Royce - We must recognize that these people tell ^{US} us
their problems, not their successes. Their interest is
in frightening us.

Everything is relative. A few years ago Indonesian
was thought to be going Communist.

Note that where things are best - Sing & Malaya - that is
where Chinese are many things. Don't know where Chinese

Richardson - Will we get an aid prog

Roy - yes.

Rich - Is it true that if Indo China stabilizes, that
Thais might not want us to reduce our presence in the

Ag - yes, but Thais don't want us that very heavily

Rich - From our standpoint, we don't want to reduce
until we see how things go



01 - B-52D can't fly from Guam, so we really need this base

10/20 - Pers returns w/ Sommes

Sommes - upcoming negotiations are enormously important, esp political.

Important thing is if this leads to political confrontation, no trade gains even counterbalance & damage.

Here I have impression US exports increasingly concessions because of ^{our} trade balance

Buts have had surplus balance for long time. We didn't take this position, but got on our hind legs and fought for markets.

Would be great party if unbalanced difficulties w/ Japan & we have them also - they are moving into E. Eur.

- They take sections of market in different countries. We can't let this go on, but can't gang up on Japan - but we have to open up the Japan market. That is only solution

In presentation of your trade bill -

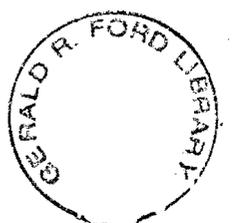
- I hope it is a trade liberalization bill. Of course, you need safeguards built. Bill should be liberal w/ safeguards, not vice versa.

- w/ respect to Europe, look for doors which could be opened, don't think of locking down.

P. Important for all to know that ~~for~~ there is a strong electoral sentiment both here & in Europe.

We ~~don't~~ will not give in to that, & don't want a confrontation - in time a Japan

As would this issue arise, must realize this couldn't have happened if US-Eur relationship had not been strong.



Nothing could be more harmful than if we let
our competition offest our political
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Scowles + Puss left 1044, Puss returns 1045

Roy - I think I think how we are going to stay.

P - What did you think of Scowles

Roy - Good, but I told him if we call a liberalization
measure, it will merge the two Com.

P - Yes I told him that if they agree to liberalization would dominate
our actions + if they don't give us a sign, no bill

Roy - Scowles a good man + good to have a single voice
to speak w/

Schady - Don't think that our prob is just w/ Japan - our
relations w/ E are deteriorated more recently than
w/ Japan.

locked doors - most of the locked doors are there - again,
computers, etc. They have to work.

Even factories relentlessly push + unless they are
handled they will push everything aside

Custom - and keep what takes and in US & anyone.

Riches are out, if we don't have exchange, we can't
give it away, so there is a big stake in a
sound trade aspects.

P Scowles has a point. Because US market is so
rich, our companies have not pushed foreign
trade adequately.

US companies set up too much multinationals companies,
instead of staying in US + exporting, we
don't export jobs.



P In a word, a fundamental issue is whether or not we have competitive currencies & costs in a world. Globalization, the one spray train, will come. This is coming & we must get at it before hard controlled economy & they can pick off various markets w/ their leaders.

We will probably have to make two + E. Europe, but Japan is not being a good partner. We must find a way to get at this.

Rep - There are things we can do, but it will be tough fight

P - Geary biggest particular but for us, but we have to make our economy competitive.

Rep - How do we give US industry incentives to X, when a market here is so easy.

Ash - Good point, & esp. difficult w/ smaller companies.

Rep - Have say multinationals export jobs & product still comes into US

Ash - True, but alternative is to have foreign owned companies send those same products into US. This way, we at least have a investment, if not labor.

If we are to have our markets, better to retain hard technology as we have experienced US. It is knowledge, & it is equalizing around world.

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Flores - Over 19% of production is for X & that is large.

P - Want GOP to look hard at this - where small countries are going to buy ours anyway, let's not let them be French, Brit etc, but US.

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✓ Even for us, but mostly for allies, we are pushing two options. I applied element of AX, for example

Reich - I am investigating long restrictions on these sales to approach long an balance of payments basis.

These countries will buy anyway, & they should be able.

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✓ P Roy highest priority for CIEP is to find how to make US industry be competitive in a world.

If US moves inward, the world will be in mess, because USSR & PRC still look outward

George - go ahead.

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Closed gold window last Aug.

Smithsonian agreement.

Must talk not only deficits, but surpluses

" " " " of monetary system, but security, aid, etc. Monetary system can't carry load by itself.

Should try to get away from controls on capital

We tried to put our philosophy into operation to meet this crisis. Haha Jimmy Ray, Seb, Fleming, Bureau.

Possibilities -

Joint float by Europe

Unilateral action by US - like proposal that last would

accept either. We

couldn't be hurt because

gold window closed.

Europe & Japan had to bite a bullet.



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Real rate not too high, but still substantial.

Domestic prices - Inflation tends to rise & price level.

P what is a safeguard system

S Protection against accumulation by a particular product.

Natural increase, ok, but not precipitate. The level

must have procedure for determining when this occurs
& give Pres authority to act swiftly.

Pres could declare emergency & either apply gen'l surcharge
or a particular one.

Also may change present authority to retaliate - to broaden it.

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These negotiators differ from Kennedy round in that this time

we can go up as well as down on tariffs. We want

free trade, but won't jeopardize US jobs & business.

Keynes - must recognize that ~~the~~ once we have Pres authority,
pressure from individuals ^{companies} for increases will
be tremendous.

P We aren't seeing really new competitive industries, just
those which are basically sound.

→ New subject: Aid to NUN & Christianity

P Rogers - circulate various memos on this

NUN aid will be tough to sell. In SW with liberals

supported and to Germany, & conservatives opposed

Wm, & liberals are opposing aid to NUN w/ some

arguments that conservatives used against Am. in 1947

Old instincts have become a new isolationist

Aid to NUN is not on humanitarian but pure math interest

- Aid will draw them toward their own problems, have

them turn inward, & will give us some measure

of influence over their behavior.



discuss
Trade bill
w/ S opponents

P (C) I am also working on PRC & USSR to purchase
NICK, but this must be done privately.

Ray - Tell Cury to want what they know what we want
& why.

We have spent so much. Why let it all drain &
drain ~~so far~~ now.

✓ P Would like every member of Cabinet to take Rogosa line
Don't ask them to support now, just to keep
quiet. Wait & see.

On multilateral aid, several countries have agreed to
help. Multilateral aid gives no leverage.

Tell Cury others will help, but bilateral is ^{also} important
also, to maintain leverage.

But in terms of Indo China aid, but leverage w/ NICK.

Ray - Particularly say about my til c prisoners are ^{aid was in agreement} home.

✓ P - Excellent point. Also, Johnson Admin began this.
If all will wait til prisoners get back, this will give
us time to turn some people around.

ask - People want to know where necessary to come from

P - Hold that now, but I will say that aid will not
come at expense of domestic programs. It will
have to come from within security budget.

