In 1969 we will want to continue cooperation and conclude new arrangements, with particular emphasis on NATO Europe. In the coming year, we will want to build on past experience in ways which:

—Proceed from the NATO recognition of the principle that the solidarity of the Alliance can be strengthened by cooperation between members to alleviate burdens arising from balance of payments deficits resulting specifically from military expenditures for the collective defense;

—Increase the emphasis on purchases in the United States to meet country needs for the improvements NATO has recently called for in country forces; and

—Reduce reliance on investments in long-term United States securities as a means for dealing with our foreign exchange costs resulting from defense expenditures outside our borders, since these investments do not provide the basis for a long-term solution.

In other parts of the world, we should give particular attention to the Far East. Military expenditures related to Vietnam and the prospective longer-term security situation in the region may be expected to continue a heavy drain on United States foreign exchange. We will be looking to countries in the region to continue and expand their cooperation with us to deal with this problem on a continuing basis. Active negotiations to this end should be a continuing responsibility of the Secretaries of State, Treasury, and Defense.

Of course, the principal opportunity to achieve actual reductions in our gross defense expenditures abroad, without damage to our long-term mutual security interests, is most likely to occur in connection with progress in the negotiations looking to a peaceful settlement of the conflict in Southeast Asia.

Even before our susbtantial involvement in military operations in Vietnam in 1965, United States military expenditures in the major Far Eastern countries were considerable. The direct foreign exchange costs of these expenditures averaged about $700 million per year before 1965. They are currently running approximately $1.5 billion *higher.*

This heavy direct loss of dollars to and through East Asia must be reduced when the fighting stops.

Therefore, a high priority must be given to the problem of neutralizing, to the maximum possible extent, the balance of payments cost of our security forces in East Asia while the fighting continues, and reducing the gross cost when the fighting diminishes or ceases.

5. The Mandatory and Temporary Foreign Direct Investment Program, as Announced in Modified Form by the Secretary of Commerce on November 15, 1968, Should Be Maintained.

The mandatory direct investment control program for 1968 has not interrupted the high, indeed, unprecedented, level of total American