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Joint efforts to be made by Western Europe to put its trade with the East on a normal basis

Opinion[1]
Committee on Political Affairs and Democracy
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A. Explanatory Memorandum

1. Should we trade at all ?

1. At the moment trade between Eastern and Western Europe, while in volume only onethird or so of what it was before the war, is still about the same value as in 1938 in dollar terms. The United States is similarly trading with Eastern Europe, and the countries of Europe are trading with China. The tendency of most European Governments is in favour of continuing, or even of expanding, this trade, and the American Government has in the past months expressed a similar attitude .[2]

2. Some argue that this trade should cease immediately, on the ground that a third world war is inevitable, or highly likely ; and that nothing must be done that would strengthen the East for this conflict.

3. To them only one answer can — and it must — be given. If war is inevitable the trade embargoes are useless. Action must be taken quickly. Today the strategic advantage may still be with us, but in the foreseeable future the East will have enough nuclear power to destroy most of the Western bases. Then strategic superiority will have ceased to have any meaning. If it is believed that a third world war is inevitable, then in all logic a preventive war should be launched without further delay[3]. This is not the view taken by the Committee. We do not believe that the fatal catastrophe of a third world war is inevitable. And we therefore reject any argument against East-West trade based on the argument that it is.

a s t e r n E u r o p e i n c l u d i n g Ru s s i a

Ch i n a i n c l u d i n g O u t e r M o n g o l i a
1938
1953
1938
1953

1. 1954 - 6th Session - Second part
2. For figures and recent pronouncements on Bast- West trade see Document SG/R (54) 3 Rev. The figures taken from this document, from the 4th Report to Congress by the Administrator of the "Battle Act", and those supplied by the 0. E. E. C , are as follows :
3. As suggested by President Syngman Rheo in a speech to Congress on 28th July, 1954, when ho claimed : "The essence of Communist strategy for world, conquest is to lull America into a sleep of death, by talking peace until the Soviet Union possesses enough hydrogen bombs and intercontinental bombers to pulvorise the air-fields and productive centres of the United States by sneak attock ".

European exports	7 8 9
European imports	9 2 7
United States exports	2 4
United States imports	3 6 3

N. B. The figures for trade with China refer to O. E. E. C. countries only. The figures for the United States are throughout those of 1937 instead of those of 1938, and where Eastern Europe is concerned they certainly understate trade as a result of taking into account direct shipment only.

Total free world East-West trade in 1953 is estimated a t : 1,350 million dollars worth of exports f. o. b. and 1,580 million dollars worth of imports c. i. f..

4. A second objection — of a subtler kind — to all East-West trade has been suggested, which does not assume an unlimited war. Atomic wars are not the only threat. If all wars had to be unlimited geographically and unrestrained in the weapons employed, those with less scruples and greater readiness to take risks with the lives of their peoples would tend to get away with much; for those with greater scruples would hesitate to invoke the ultimate sanction. I t is perhaps fortunate that under such circumstances it has hitherto been possible to resist expansion by limited warfare confined to a narrow front and waged with conventional weapons. But, since East-West trade is bound to strengthen the European economies and indirectly increase their military potential for further " l i t t l e wars", East-West trade so the argument runs, must cease.

5. Certainly, this thought justifies Strategic List A[4], but it is far from justifying a blanket refusal to trade. On the contrary : it goes to show that a complete embargo is a clumsy weapon. If our purpose is to strengthen ourselves relatively to the other side — which comes to the same as weakening them relatively to us — then every bargain is advisable or not. without reference to be commodities involved, only according to the terms of trade. Even a ton of high explosives is worth selling to the other side provided it is exchanged for something which, by strengthening our side more, will tend to deter aggression. If relative strength is our criterion, one of the partners to the bargain is always gaining and the other losing. East- West trade becomes a calculating problem in economic warfare.

6. There is a third argument adduced against any East-West trade at all. If it is our aim to weaken the East in the hope that internal dissension will finally bring about revolt or collapse — and we assume that the East is unlikely to offer terms which would weaken it absolutely — then we must refuse all trade, on whatever terms it may be offered, since any trade will tend to strengthen the Communist regimes politically and economically.

7. This reason for refusing all trade with Communist countries merits a more detailed examination. To it there are at least four serious objections : (i) one concerned with its effects on the East (ii) one concerned with its effects on East-West relations (iii) one concerned with its effects on the West (iv) and one with its practicability.

8. (i) Even if we see no force in the argument that we should not inflict useless economic hardship on the populations living under Communist dictatorship, it is not certain that economic advance in the Eastern bloc is necessarily to our own disadvantage. There is no evidence that cutting off what trade we have with the East at present would strain the Communist regimes to breaking point. The machinery of- the police State makes it easy for the East to sacrifice the standard of living of her peoples to political and strategic considerations. Moreover, it may well be that those who are experiencing a rise in their standards of life may be less docile about sacrificing these standards and themselves in another war. They will have more to lose. And if the rulers of the East see the chance of economic development aided by trade with the "West, they may well .come to- feel that war is not the only way out.

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4. On 26th July, 1954, the President of the United Kingdom's Board of Trade stated that, as a result of an international agreement among 17 countries, including the United States of America, as from 10th August the embargo list would be reduced "from about 250 to 170 items". (Official Report, Vol. 531, No. 150, Col. 39.)

9. (ii) If we believe that another world war would bring about the destruction of "Western civilization as we know it, we must do all in our power to mitigate every cause of tension between East and West. This means that conferences between East and West must go on, despite the cost to the patience of Western diplomats. They may not lead to concrete settlements, but there is the chance that over technical problems minds will meet. I t may even be that by permitting all sorts of contact the ideas of freedom in the form in which we understand them may eventually cross into the Eastern world. However that may be, there will at least be this advantage : willy-nilly, those who sit down at the conference table will be forced to pay attention to world opinion and to the longing for peace of the ordinary people all over the world.

10. (iii) The third objection to a complete embargo on all trade is this. While the East has only the problem of finding supplies, the West must find markets as well. Too little attention is paid in the West to the relevance of the Marxist analysis to the economic problems which the present world situation imposes upon us. If our markets become congested Western business men will bo prepared to trade with anyone, even those effectively at war with their own countries. And the more intense competition between Western nations becomes, the greater will be the pressure on business to supply goods on ever more favourable terms to the East.

11. Wo should be under no illusion.: the post-war sellers' market within the Western world has already largely disappeared. Yet Germany and Japan are only just beginning to return to the international market. Germany has so far regained little more than half of her prewar share; and if German competition is already hitting the market hard, what will be the effects if she regains her pre-war position ? There may well be moves, not least on the part of their competitors, but also by their own business men, to re-direct German and Japanese trade to Communist markets. And, once these two countries are dependent for a large share of their markets on the East, they will inevitably tend to become more open to Soviet political influence. The effect on the world power-balance might be disastrous. The answer to this problem, of course, cannot be found solely in East-West trade, but clearly necessitates a measure of international economic planning within the Western world for which no machinery at present exists. The most important single answer to. the problem is the development of Point Pour and Strasbourg Plan programmes on a major scale. This must be done wisely, with due regard to its social effects, and without stipulating political conditions for economic aid. Then it may bring with it not only the loyalty of the peoples immediately affected, but also the support of the so-called 'middle world' upon which the world power-balance may ultimately depend.

12. (iv) This brings us to the last objection to a blanket refusal to trade. Suppose that the West declared that, come what may, it would henceforth supply nothing — no herrings, no machinery, no medical supplies — on the ground that everything it supplied would strengthen the Eastern hloc. How would the " n e u t r a l " countries react? East and West, fortunately, do not between them exhaust the whole world. Finland and Sweden, India and Pakistan, independent in spirit, are placed in vital positions. They could constitute major breaches in any projected "Continental blockade" of the Eurasian heartland, if they felt that the West was acting unfairly and that they had right on their side.

2. East-West trade as a weapon for peace

13. A permanent and absolute embargo is thus impossible ; and would in any case be undesirable. Yet, until recently, we were trading with those who were killing Western soldiers in the Far East, supplying goods which freed resources for their military effort. Such a situation might arise again. Here lies the dilemma. We cannot afford to make a mistake in so grave a matter. Rigorous logic and carefully concerted policy are essential.

14. There does seem to be one course open to us which is coherent and practical. The East is in dire need of heavy and intricate machinery to speed up its industrialization. Only the West can provide it. This puts a powerful bargaining weapon in our hands. We have never used it yet. We have let the East have some of the things she desperately needs, but nothing like all. But, above all, we have let her have them regardless of whether she was conducting open warfare against us or not. We have thus been falling between two stools. This policy of drift must cease.

15. The West must decide under what political conditions she will trade with the East. We should not hesitate to get political satisfaction by offering economic advantages. We must take the reins of East-West trade firmly into our hands so that we can sit down at the bargaining table with clear-ciit terms : the threat of complete embargo while aggression lasts, and the promise of intensive trade once it ceases. We thereby acquire a notable weapon for peaceful containment.

16. It is not even necessary for us to decide at this moment just what political conditions must be satisfied before we agree to trade. The Soviet Union and her satellites may inspire action short of war, seeking to disrupt our countries internally. East-West trade might be used as a sanction in such a contingency. Precisely under what conditions and in what situations we should wish to use East-West trade as a weapon for peace we need not decide now. All that we must decide is that we should be willing to use it for this purpose if necessary.

17. For that, however, there must be complete and flexible control of all East-West trade. The West must so organise herself that she can switch from a complete embargo to full and intensive trade, and switch again into the reverse. Otherwise the sanction will make no difference. A complete embargo may be unrealizable in practice, but we must be in a position to make it as watertight as possible. We may never wish to trade in military materials or cease trading in medical supplies ; but, these two exceptions apart, we must be able to promise large-scale trade in those goods which the East most desperately needs — whether they figure on present strategic lists or not. Conversely, while warfare goes on, we must cease trading at all. East-West trade is a potent weapon for peace; we must not throw it away for petty commercial profit.

18. At the same time we should beware of making China more dependent on the Soviet Union than she already is. I t may well be that the embargo — stricter in the last four years on China than on the other Communist countries — has been ill-advised for precisely this reason. The Communist countries have been trading for each other where one has been singled out by the West for special discrimination. By trying to discriminate between them by giving harsher terms to one we have only succeeded in increasing their solidarity. I t should therefore be our policy if one Communist country is buying for anothei', either to trade directly with the country of destination, or else to withhold goods destined for a third country whenever we believe that the coherence of the Soviet bloc is being cemented by the resale of Western goods.

19. Thus we arrive at a purposeful and resolute policy for East-West trade. But one t h i n g is to be noted : an effective embargo will be practicable only if there is no serious marketing problem in the Western world. Our policy for East-West trade thus depends on expanding markets in the West. Here again the carefully planned social and economic advancement of the under-developed countries for which we bear responsibility is essential. We thus evolve a •double answer to Communist expansion-: we show our determination to have no truck with aggressors and those who abet them; and we show that we mean business in raising the standard of life of the poorest of our peoples.

20. Such a policy can reckon on the support of the " n e u t r a l " nations. Where a permanent and total embargo would suffer shipwreck on their attitude, a cleai'-cut temporary economic sanction against aggressors may well accord with their feeling of what is just. If ours is genuinely a policy of denying all non-medical goods to aggressors, and letting any nation at peace have all the non-military supplies she needs, they may well rally to it. For ours will then truly be both a short-and a long-term programme for peace.

3. The need for a common front

21. In the two previous chapters the Committee has suggested two principles on which trade should be conducted or refused. Quite independently of these principles the Committee wishes in the present chapter to put forward a concrete proposal for the earnest consideration of the Ministers. This proposal would facilitate the application of the two principles, but it has much to recommend it — indeed to make it of utmost urgency — quite apart from them. We have seen that East-West trade is being carried on at the rate of billions of dollars a year. Whether we regard this as desirable under all circumstances or under none, or indeed (as we have suggested in the two previous chapters) desirable in some and undesirable in other circumstances, is irrelevant to last chapter.

22. If we do something at all, it is best done well. If we trade with the East we had better do so efficiently. At the moment the West is trading with great inefficiency, and, moreover, under a severe handicap. In Geneva in the summer of 1954 Western business men were quene-ing up outside the hotel of the Chinese Delegation, jostling each other in attempts to get business orders. Chinese monopoly played one business man against another and one nation against another to lower prices and obtain the •most favourable terms of trade. The same thing •has been occurring in all East-West trade ; it cannot continue. It is not simply a problem of loss or gain of " f a c e " . I t is a matter of protecting ourselves against commercial exploitation.

23. Under any hyppthesis, if there is. a monopoly on one side screwing down "Western prices and screwing up Eastern prices, we must form a monopoly ourselves. The present consultative group (COCOM) meeting in Paris is totally inadequate. No world-wide cartel can be formed and maintained under the aegis of a merely advisory body. Centralized hard bargaining on one side must be met by centralized hard bargaining on the other. To handle the special problems of East-West trade an East- West Trading Corporation or some such

body i s . essential. As each member country is at present licensing trade with the East on certain conditions, so in future it would only license trade with the East which passes through the Corporation : and this Corporation would be controlled by a • Committee representing the participating Governments.

24. The formation of such a body would have additional advantages. It would put an end once and for all to the vicious rumours circulating in each of our countries that the business men of others are allowed to trade more freely with the East. I t would put an end to the public disagreements between Western nations on the scope of the embargo list, and on the way in which it is to be enforced. The East- West Trading Corporation would invite tenders of goods which the East needs from any of the countries which have agreed to trade with the East only through the Corporation. It would take the most' competitive offer, or the offer which on economic and political grounds it is most in the interests of the Western nations as a whole to take. Similarly, it would sell Eastern goods on the open market in the West. Trade with the East would then cease to be a question of hole-and-corner (and sometimes black market) scrambling by individual business men. I t would become open, orderly and based on a concerted policy applied impartially by a central body under the supervision of all the participating Governments.

25. Moreover, the creation of such a body would mitigate — and could indeed entirely remove — the present crude bilateralism of East-West trade. No longer would each Western nation separately barter so many tons of herring and so many tons of tin against so many tons of crabmeat in tins. No longer would the value of trade have to balance bilaterally on both sides. Overall agreements for multilateral trade could be made. The confinement of East- West trade to the channels of 'bilateral bartering has notably reduced its volume. The Corporation could thus considerably raise the volume of trade.

26. The problems of detailed negotiation that are proving so difficult could be entrusted to a single body, and the whole diplomacy of trade simplified. Innumerable trade missions and endless negotiations over small amounts of trade between countries individually — the E.C.E. organised 133 separate negotiations in April, 1953 alone — would be replaced by a central clearing house on the Western side.

27. If it is objected that a monopoly on the Western side would increase the monopolistic character of Eastern trading methods we must reply that little is left to be done on the Eastern side in any case : and that it would be surprising if, merely because the West does not attempt to defend herself, the East would refrain from making her organisation of trade more efficient. So far as the political aspect is concerned, we have already seen in paragraph 14 how, when some of our countries treat one Communist country worse than another, this may enhance their solidarity. In our East-West trade we should therefore not attempt to play off one Eastern country against another, while they appear to be politically united ; nor should we discriminate against them unless we believe this will have beneficial political effects. But, once we can see signs of a breakaway on the part of one of these countries analogous to the defection of Yugoslavia, we must act and act quickly; for such chances should never bo thrown away. To seize them we need an organisation flexible enough to support any such country by economic means. The channelling of East-West trade through the Corporation will give us the instrument for implementing, quickly, efficiently and completely whatever policy may seem to hold out the greatest hope.

28. As a Western monopoly matches the Eastern, Western gains from trade will increase. Where Eastern imports are strictly limited, the margin between their Value to the Eastern and their value to the Western world is great. Hitherto the Eastern monopolies have appropriated most of the margin to themselves. But still Western business men are able to make large profits in their deals with the East. The percentage profits of the Corporation should thus be substantial; and, as trade increases, so will overall gains. But the profits would no longer flow into the pockets of those business men who were prepared to trade on the, terms of the Eastern bloc. Some may be needed to cover losses arising out of any sudden interruption in East-West trade ; but the rest would benefit joint Western funds. They may not be more than a few million dollars a year — that will depend on circumstances — but, such as they were, they could be used for the economic and social development of the poorest nations in the West.

29. This would be the common concerted action to increase East-West trade for which the Economic Committee asks in its Interim Report1. Such common action could greatly raise the volume of trade, diminish its commercial risks and raise its profitability to the Western world as a whole. At the same time the existence of a single body through which all East-West trade would be channelled would also allow us much greater flexibility in the use of trade as a bargaining weapon, should we wish to use it for this purpose as well. Sanctions could be applied promptly, without exceptions, and with that degree of intensity which the circumstances of the moment would indicate as most efficacious. In the extreme case trade could be cut off completely and immediately, and the goods " i n the pipe-line" diverted to the underdeveloped countries of the West.

30. The Opinion which follows was adopted in Committee unanimously.[5]

Opinion

31. The Committee on General Affairs, having considered the Report of the Committee on Economic Questions from the political viewpoint, expresses its general agreement with the terms of the Recommendation proposed.

32. The Committee on General Affairs proposes the following drafting amendment to paragraph 1 (a) of the Recommendation : replace the phrase "so long as the countries in question loyally pursue peaceful policies" by the phrase "provided the countries in question practise peaceful policies".[6]

5. D o c 258 (1954).
6. See 6th Session: Doc. 290, Amendment No. 2.