

EAST-WEST TRADE, THE SUMMIT'S KEY ISSUE

The leaders of the seven major industrialized democracies will convene for their ninth annual economic summit in the idyllic setting of colonial Williamsburg, Virginia, at one of the most critical junctures of the international trading system since the Great Depression. Their decisions on a wide range of pressing problems may well determine whether the still fragile recovery now underway in the United States will provide the necessary impetus to pull the world economy out of its longest recession since World War II. The results of the summit will indicate their political resolve to come to grips with and reconcile their diverging attitudes toward the strategic role of trade with the Soviet Union that prevailed throughout most of the postwar era. As host of this summit, the United States must provide the leadership to guide its allies toward agreements that arrest the rising tide of protectionism, reaffirm the commitment to free trade, and safeguard the international monetary system and, as a result, instill renewed confidence in a lasting consensus on common political and security objectives.

Perhaps the key issue for Western leaders will be how to construct a unified policy for commercial relations with the Soviet bloc. For the past two years, the Administration has endeavored to focus attention and forge agreement on three interrelated components of East-West trade: first, tighter controls on the flow of dual-use high technology products and know-how; second, limitations on government subsidized or guaranteed loans to finance exports; and third, the growing energy dependence of Western Europe on the Soviet Union. By squarely addressing these issues, the Administration correctly has underscored the broader strategic implications of East-West trade.

At the Ottawa summit in 1981, agreement was reached to review the list of embargoed security exports maintained by Cocom, the Paris-based Coordinating Committee on East-West trade. During the years of economic detente, this list had been limited to goods with direct military applications. As a result, the Soviet Union could freely acquire technologies of ancillary military utility. It also freed the Soviets from the need to expend vast amounts of money for research and development and allowed them to funnel these funds into their military buildup. Considerable agreement has been reached at the ministerial level on how to curtail the outflow of sensitive Western technology. Despite the potential divisiveness of this issue, the Reagan Administration should insist on further strengthening the Cocom guidelines and seek endorsement for a

review board within CoCom that will have the responsibility of monitoring the flow of high technology among Western nations to detect illicit diversions to the Soviet bloc. The U.S. also should urge the Allies to implement the conclusions and recommendations of several studies that were initiated in order to examine contending perspectives on advanced technology exports.

Just in time for last year's Versailles summit, the OECD countries concurred on elevating the Soviet Union to industrialized country status, thereby rendering it ineligible for low-interest loans from national export agencies. As part of the comprehensive review of East-West trade agreed to by the Europeans in return for the Administration's decision to lift the Siberian pipeline embargo in November 1982, governments are studying ways to close the hidden loopholes for subsidies in East-West trade. The Administration should emphasize that restraint on subsidies is not tantamount to a declaration of economic warfare. Instead, when viewed properly, it aims at putting East-West trade on a strictly commercial footing. The Administration also should press for an overall ceiling on credits to the Eastern bloc at the lowest agreeable level. It should insist on unequivocal commitments in order to avoid the recurrence of last year's post-summit dispute over what had actually been agreed to.

This dispute resulted from differing interpretations of the ambiguously worded statement that governments would exercise "commercial prudence" in their dealings with the Soviet Union in accordance with their common "politics and security interests." Months of internecine warfare followed over the applicability of this pledge to the Siberian gas pipeline. The Administration should extract a commitment from European leaders not to build the second strand of the pipeline as planned so as to deny the Soviet Union the vast hard-currency purchasing power it would derive from this single project and to freeze European dependence on Soviet gas at presently anticipated levels. Stopping credits to the Soviet bloc will automatically limit future opportunities for such long-term capital projects and dry up Western assistance for the development of the Soviet industrial infrastructure.

Agreement on a burden-sharing formula to equalize the costs of restraint in East-West trade would be helpful in forging a consensus that national security considerations should determine the scope and level of commerce with the Soviet Union. It could also facilitate Administration efforts to obtain a political declaration endorsing deployment of intermediate-range nuclear forces in Europe beginning this fall. As the three principal recipients of these U.S. missiles will be represented at Williamsburg, the Reagan Administration should use the visibility of the summit to demonstrate the political resolve of the Western allies.

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For further information see:

Soviet Acquisition of Western Technology, Central Intelligence Agency, April 1982.
Cord Meyer, "How to Trade with the Soviets," Washington Times, October 22, 1982, p. 11.

East-West Trade: The Prospects to 1985, Joint Economic Committee, U.S. Congress, August 18, 1982.