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Staff Study No. 3
Draft of June 6, 1955

Foreign Attitudes Toward Economic Defense

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Foreign Attitudes Toward Economic Defense

Abstract

In any discussion of the restriction of trade with the Soviet bloc, foreign attitudes must be considered of paramount importance. The US by itself has now virtually no direct control over Soviet bloc imports in the sense that US exports to the Communist bloc amount to only one-tenth of one percent of the small total of Free World exports to that area.

While there is considerable agreement among the Free World countries about the necessity for controlling trade with the bloc, US public and popular attitudes have generally favored tighter restrictions than have other countries.

Two major factors probably explain most of the difference. First, foreign countries are more inclined than the US to act on the basis that trade is a potentially important means for reducing international tensions and the danger of war. Second, many foreign countries, more dependent for their economic well-being than the US on foreign trade in general, are more concerned with the effect on their domestic economies of restrictions on trade with the bloc. In fact, at times their concern seems out of proportion to the actual potential for trade with the bloc. Thus, there was and continues to be widespread support for the Danish statement in the Consultative Group of COCOM in the spring of last year, which proposed that in any revision of the export control system "it was essential that the effect of the

restrictions on economic and social conditions in the participating countries themselves be kept closely and firmly in mind."

While there are wide differences among the countries of the Free World in their attitudes toward economic defense measures, a considerable degree of uniformity has been achieved in the application of the controls multilaterally agreed upon. Denmark, which frequently attempts to have the restrictions on trade with the bloc reduced, has not concluded a trade agreement with the USSR because the latter insists on the inclusion of tankers which COCOM has termed "strategic." The countries of Asia have generally adhered to the UN embargo of "strategic" goods to Communist China. In Indonesia and Burma, however, there are considerable political and economic pressures for expanded trade. These attitudes are particularly influenced by the neutralist foreign policy orientation of these countries. India which loudly proclaims its neutrality and independence of the US, secretly follows Western trade controls from considerations of foreign policy, although, in addition, it has only limited amounts of "strategic" goods available for export. While demonstrating little sympathy or understanding of the program of economic defense, Japan has faithfully observed its international commitments in this regard. West Germany favors tight controls but objects to applying them, which it does, to its trade with East Germany. The UK has been a positive force in developing the present limited trade control program and in providing for its effective implementation.

Currently, there are two major areas of disagreement between the US and other countries of the Free World in the matter of trade controls. First is the question of treatment of Communist China. The second is the

question of the definition, identification and treatment of "strategic" versus "non-strategic" trade.

Most foreign countries are opposed to applying higher levels of controls against Communist China than against the rest of the Communist bloc now that the wars in Korea and Indochina are over. Many Asian countries are, in particular, motivated by neutralist sentiment and a desire to reduce international tension as well as economic considerations in seeking to reduce the barriers to trade with Communist China. It is pointed out that the differential in export controls imposes only a light burden on Communist China since the latter can, through the services of European bloc traders, purchase goods denied it directly. Moreover, Japan feels that this factor puts it at a serious disadvantage vis-a-vis the Western European countries in trade with Communist China.

Foreign countries have generally embraced the philosophy of "strategic" goods in the sense that they willingly embargo exports of such goods but believe that trade in "non-strategic" goods is not only not undesirable but is to be positively encouraged. Moreover, they generally favor a narrower definition of "strategic," wanting it to relate solely to goods which seem to have an immediate military application. The present control system, limited primarily to embargoing exports of goods of direct military use, is the result of fairly general foreign pressure, led largely by the UK, for a narrow sphere of trade controls. [There seems to be little recognition abroad of the implications of the fact that export controls cannot prevent the bloc from achieving a given level of domestic availability in any particular commodity (other than a new product).]

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I. UNITED KINGDOM

General British Position. As early as 1949 the UK Government, after consultation with the US, took the lead in getting the countries of Western Europe together to agree on a framework of strategic controls over trade with the Soviet Bloc. The UK has played a key role in the Consultative Group since it was established in 1949. The British also initiated controls over exports to Communist China even before the Korean War and supported the UN resolution in 1951 under which China was declared an aggressor and exports were strictly limited. British initiative was also important in the relaxation of controls over trade with members of the European Soviet Bloc agreed upon in the Consultative Group in 1954. (The change did not affect controls over trade with Communist China, North Korea, Tibet, and more recently North Vietnam. In addition, trade with Macao is carefully regulated.)

The UK during the past year took the lead in having the export control lists limited to items which include ~~are in the main~~ of immediate military action. The British cannot, however, be characterized as anti-control. Actually they have probably made more positive contributions to COCOM than any member except the US. The record of formal British commitments on East-West trade controls indicates both independent initiative by the government in plugging some loopholes in the controls system inaugurated by the UK and approved by COCOM and in cooperating with other Western countries to render the system effective. Labor and Conservative governments, as well as the majority of the British people, have recognized the need for some such controls. They are not likely to alter their position as long as the international situation requires limitations on trade with the Communist world.

Considerations Affecting British Attitudes Toward Controls. The British Government regards the international political and strategic aspects of the existing control system as a paramount consideration of national policy. The government is not likely to act unilaterally to change this system or to evade compliance with its regulations because of some differences with other COCOM members concerning Soviet-Chinese capabilities or intentions or because of overwhelming economic urgency. Although subject to considerable pressure from private British traders and political groups to increase the volume of trade with the Soviet-Chinese bloc, both on economic and political grounds, the government does not attach an exaggerated importance to this trade.

The trade comprises only about 2 percent of Britain's total overseas trade, partly as a result of the imposition of controls. Under the most favorable circumstances it is not likely to assume the proportions (about 6 percent) it had with Soviet-Satellite members in Europe before World War II. Soviet economic policies and the changed pattern of economic life in most of the satellite countries have worked to limit exports and the capacity to pay for imports, and have probably altered fundamentally the long-term economic relationships between the UK and Eastern Europe. In addition, the lack of a satisfactory settlement on British properties nationalized by the Eastern Europeans acts to depress British trade and investment in the area.

The influential Federation of British Industries and the Trades Union Congress have generally concurred in the estimate of the limited economic importance of East-West trade for the UK, stressing the need to increase legitimate trade opportunities wherever they arise but warning

against large expectations from trade with the Soviet Bloc countries. Despite persistent demands for increased trade by segments of the British business community and for an equalization of controls between the European-Soviet Bloc countries and Communist China, the national economic stake in this trade remains marginal and is not likely to become the sole determinant of British policy in COCOM. The British are, however, concerned about the economic future of Hong Kong.

There are nevertheless reasons why the British Government and much of the business community still continue to favor a progressive relaxation of controls, if the international situation warrants it. Generally, the British view the whole control system as an international expedient, voluntarily agreed upon to meet an emergency of uncertain duration and only valid so long as it meets the requirements of the mergency without causing unnecessary economic embarrassment to the cooperating members or perpetuating political tensions between the West and the Communist world. The British favor the largest possible area of permitted trade and, conversely, prefer to limit the area of prohibited trade. There is no essential difference between Conservatives and Laborites in this basic respect. The viewpoint is the closest the British are likely to come to what may be called a philosophy for COCOM action, comparable in some respects, but far more flexible and loose, to the British approach to the purely military aspects of NATO.

The British accept the fact that economic defense precautions are inseparable from military preparedness against a potential enemy. They do not always agree, however, that the priorities are the same or that the justification for particular economic defense measures is clear. They have

adopted a highly selective attitude toward controls and lately have resisted hard restrictions on goods which they consider to have a marginal strategic character and have opposed the imposition of embargoes on individual items like shipping of certain tonnage and speeds, copper wire, rolling mills, some types of generators, and other commodities. Other reasons for this position undoubtedly arise from the tough, pragmatic line the British have customarily adopted, regardless of the party in power, toward international trade, and from domestic economic and political pressures which every British Government must somehow attempt to reconcile with both the national self-interest and British international commitments.

US-UK Differences over Control Policies. The record of US-UK co-operation on the establishment and enforcement of international control policies is far more impressive than the differences in outlook and detail which have divided the two countries. This fact is overwhelmingly true at the governmental and technical levels, although it is often obscured by public and partisan controversies in both countries over particular cases of alleged violation of the system of controls or differing interpretations of what the system calls for.

Some differences have already been referred to, both substantive and procedural, and need not be stressed again. Broadly speaking, the British believe that elements in the US administration and Congress think of COCOM in terms of a comprehensive, quasi-permanent, rigid system of controls, while the British tend to think of COCOM as a means of applying a series of ad hoc and by no means necessarily permanent set of restrictions on particular commodities designed to reduce the offensive threat of the Soviet-Communist world.

Because the US and the USSR are so deeply polarized in basic political and economic philosophy and so deeply opposed in strategic aims, the British believe that little disposition exists in the US for compromise or flexibility in dealing with international Communism on the trade front. Yet, because the British Government and most responsible political leaders appreciate the danger of Soviet-Chinese expansionism, they do not disagree fundamentally on the need for some controls; they nevertheless are disposed to more far-reaching compromises than the US in various economic and political situations. The spirit of this approach reflects a more prevalent public view in the UK than in the US of the possibility of peaceful coexistence with world Communism under certain circumstances. It reflects a softer and more accommodating type of diplomacy and a willingness to live with situations of stalemate or half-measures.

The British attitude is, of course, directly related to a heightening sense of fear of war and the vulnerability of the British Isles & Overseas territories. If economic defense measures deter Communist aggression, they serve a major purpose, the British agree; if, on the other hand, they exacerbate tensions without effectively deterring, they have little justification. All too often, British critics of US foreign economic defense policies believe, the US appears willing to follow an inflexible trade policy toward international Communism that leaves little room for Western maneuver. Their case is also often based on an indictment of general US economic foreign policies which they would like to see liberalized and freed from controls that allegedly impede British exports. This merging of criticisms about specific East-West trade controls with those relating to the general posture of free world economic foreign policies

reflects the permanent concern of all British Governments with international trade.

The divergent recognition policies of the US and UK toward Communist China have also raised special problems. The Conservative government has resisted various Labor attempts to dramatize the potential value of the Chinese trade and to secure the lifting of the UN embargo. Labor and businessmen's junkets to Communist China during 1954 and much fanfare on Peiping's side about the possibility of reviving and expanding Sino-British trade have been coupled with criticisms of the "hard" US policy toward Communist China and US support of the Chinese Nationalist regime on Formosa.

The British business community, several individual firms of which have suffered heavily from near confiscatory Communist Chinese actions, has probably few illusions about building up a secure Chinese market for British goods on an effective reciprocal basis. Yet, almost as a matter of principle, these business elements and doctrinaire political groups in the Labor Party, who want Communist China to be admitted to the UN and recognized as a great new revolutionary force in Asia, will continue to insist that trade between the Communists and the UK is the key to better political relations between Peiping and the West. Although the Communist Chinese trade front is a soft area in British thinking and policy, the estimates of its possibilities are far more sober than they were before Korea, Indochina, and the recent Formosa Straits disputes. The British recognized that trade with China must be a two-way street, and the most critical of them fear that Peiping may continue to control or adversely influence the main Asian avenues of trade, including Hong Kong, and deny it any real meaning.

British Attitudes toward Sanctions. The British regard COCOM as a multilateral effort based on voluntary cooperation and would like to keep it that way. They would almost certainly resist US attempts to impose policies on COCOM members which were thought to violate the voluntary principle or to ignore the special needs of individual countries. There is already some of that feeling in the UK. Although the more sophisticated British officials and public observers recognize that certain sanctions are implied in any donor-recipient relationship and are explicit in provisions of the Battle Act, they would react sharply against a US move to tighten or broaden existing sanctions as applied to the UK. Not only would such a move create serious political problems for the British Government in dealing with an always latent anti-Americanism on the left (and, in foreign trade matters, on the right as well), but it would also be interpreted as an indication of US lack of confidence in the British will and effectiveness in carrying out COCOM policies. The British are convinced that their record in this respect is good, both in fulfilling agreed international trade policies and in containing those domestic elements which favor increased trade at almost any price. The UN embargo on trade with Communist China, for example, contains no sanctions, yet the UK has thus far abided by the policy despite often intense pressure to relax or abandon it. Responsible British opinion in government and the press does not believe that the controls agreed upon in the UN and in COCOM are the result of US dictation. They would almost certainly hold that view, if the US sought to apply sanctions which they regarded as inappropriate and demeaning to their national self-respect. Rather than accept such conditions (whatever they might be) they would be strongly inclined to refuse aid. If

that were the consequence, the whole elaborate structure of voluntary cooperation built up in COCOM would be in danger of collapse.

II. FRANCE

Political considerations strongly influence French attitudes toward economic defense, including control of East-West trade. Most Frenchmen view the strengthening of trade bonds as a means of lessening international tensions and of promoting a general detente between the Soviet orbit and the Free World. Moreover, the belief that expanded trade relations can benefit the West politically is far more widespread than in the US. For example, many Frenchmen feel that Soviet absorption of its satellites can be delayed by the skillful manipulation of commercial ties. This view was clearly stated by the French during their attempt at "co-existence" with the government of Northern Vietnam; French retention of its economic interests was important not only for financial reasons but also to prevent the extension of Chinese Communist influence over the Ho Chi Minh government.

The influence of purely economic considerations on French attitudes is much less important today than at any time in the past few years. As long as the French economic position remained precarious, the hope of expanded trade with Eastern Europe and China served to keep France and the US apart on this issue. Furthermore, the heavy scale of US financial assistance made it appear that French governments were being forced to adopt a position against the national interest. With the general improvement in the French economic situation and particularly in the foreign exchange situation, French trade with the USSR and its satellites has become a much less tempting

prospect. Commentators now point out that this trade amounts to less than two percent of the total, and that the difficulties of dealing with Soviet and satellite state trading enterprises make it an even less attractive prospect. Moreover, the Soviet Union itself is held primarily responsible for the current lag in trade following its unilateral restriction of shipments after French ratification of the Paris accords.

Differences between the US and France on the subject of East-West trade now are minor, and the French who with the US and the UK founded COCOM, have come more and more to share in leadership of the Consultative Group. In the first years of controls, the French insisted on secrecy of COCOM commitments and took the view that the Battle Act was a unilaterally-imposed US statute not legally binding on France. At present, most important measures are discussed tri-laterally (France, US, and UK), France chairs the CG and relations are smoother than at any time in the past. Propaganda against control measures in the press has diminished markedly in extent and effectiveness.

III. GERMANY

The question of controls on trade with Communist dominated countries has recently received relatively little attention in West Germany, either among official or business circles. This stems directly from the general lack of interest in East-West trade. The Germans see little economic necessity for a greatly expanded volume of trade with the East since there are abundant western markets for German exports.

The business community feels that the US has overemphasized the need for trade restrictions and exaggerated the strategic benefits which might accrue to the East from expanded economic intercourse. A number of business spokesmen have hailed recent indications of a partial relaxation of restraints on trade with the East and have pointed out that West Germany must keep abreast of other western states, particularly the UK, in regard to commercial ties with the Communist bloc. Pressure for relaxed controls has come from certain vocal industries such as shipbuilding (for Eastern Europe) and chemicals (for export to Red China). However, neither the Bonn authorities nor any important segment of public opinion has expressed any serious opposition to the basic concepts of embargoes, export quotas and sanctions for violation of such strategic controls.

An exception to this situation that has caused marked difficulty between the Federal Republic and COCOM has been the question of interzonal trade -- i.e., between East and West Germany. West German authorities recognize that COCOM restrictions apply technically to exchange with the Soviet Zone as well as with other Communist-dominated areas. Nevertheless, both the government and public opinion feel that in practice special

[objects to equal application of controls by U.S.]

exceptions must be made for interzonal trade. They assert that West Germans have a special duty to maintain close economic ties with the East German area and to assist its population by the export of goods to raise the standard of living.

Latest information indicates that such difficulties have been at least partially resolved and that on the whole the Federal Republic is at present carrying out its COCOM and CHINCOM obligations. There has been a noticeable diminution of complaints over West Germany's being subjected to more stringent trade controls with the East than other western states. The Bonn authorities used to be resentful because of the traditional position of leadership of the US, UK, and France within COCOM.

The US in the past year has generally endeavored to keep the Federal Republic informed on tripartite discussions, and, during this time, the Bonn authorities have recognized the desirability of the US solving its disagreements with the UK and France on a bilateral or trilateral basis rather than airing them publically in COCOM. Germany also appears convinced of the need to strengthen ties with this organization and are eager to develop it into a general clearinghouse for exchange of information and coordination of policies in regard to East-West trade.

IV. ITALY

While Italy has generally followed the US lead in COCOM, it has occasionally played a positive role. On many occasions it has been willing to accept broader and stricter controls than either the US or the UK were advocating.

Several reasons have been advanced for Italy's fairly strong position. First, Italy has not been a major exporter of many strategic or potentially strategic items. Second, some Italians have profited through illegal trade in strategic goods. In the absence of higher quotas, were this trade to be legitimatized, higher Italian costs of production would make it difficult for the country to compete successfully in Eastern Europe. The positive and forceful role played by D'Orlandi, who until recently was Chairman of COCOM, must be mentioned. Finally, the Italians continue to receive large amounts of US economic and military aid and may, therefore, follow the US lead somewhat more closely than they would if this were not the case.

A large body of Italians in private and public life do not consider export controls to be an important weapon in the cold war. They no longer regard war as a possibility for the foreseeable future and they consider the contribution of those items which Italy might export to the Soviet bloc to be of relatively minor importance to the Bloc's potential for war. The Italians are concerned about their serious unemployment and have occasionally asked for exceptions from the Battle Act provisions on those grounds.

The Italian non-Communist press has in general an unfavorable view toward East-West trade controls, particularly since Italy's main newspapers

are owned by some of the country's largest industrial concerns, which are interested in exporting their goods to the Soviet and China bloc. In general, developments concerning East-West trade control, such as those summarized in annual Battle Act reports, receive little publicity.

V. SWEDEN

Sweden stands in a special relationship to COCOM. Although it regards membership in this body as incompatible with its policy of freedom from great power military alliances, it nevertheless cooperates with it secretively in denying to the Communist-dominated states those items in their trade included on the international prohibited lists. This cooperation in COCOM strategic controls is effected principally through informal discussions carried on between Sweden on the one hand and the US, UK, and France as the major COCOM members on the other. In the past the US has taken the initiative in securing Swedish cooperation on internationally embargoed items.

Sweden's views on the issue of East-West trade controls have differed to some degree from those of the COCOM members. Since the Battle Act was passed, Sweden has accepted no direct aid from the US and, therefore, has not been ~~was not~~ exposed to the threat of sanctions included in that law. Government leaders as a result were not confronted with the political problem of appearing to bow to the public threat of foreign duress. This charge has been made in the Swedish Communist press, nevertheless, but has not caused serious embarrassment to the government which is not bound by public agreements to maintain trade controls.

Aside from these special circumstances, the Swedish Government and

people have tended to share in large measure the attitudes of the continental COCOM members toward the US on the issue of strategic trade controls. These attitudes may be summarized as follows:

1) Sweden accepts in principle the importance and necessity of not building up the military strength of a potential enemy. Where it tends to differ with the US is on the definition of strategic, preferring a restrictive interpretation. It is opposed to what may be called economic warfare as carrying with it the risk of military conflict. It refused, for example, to support economic sanctions by the UN against Communist China, and even abstained on the resolution to embargo strategic items alone. Sweden also tends to regard the free flow of the maximum amount of international trade as not only essential to its own economic prosperity, but also as constituting a factor for peace by holding open channels of communication and by retaining the tie of economic inter-dependency. These views are strongly influenced by Sweden's exposed position as a small country vis-a-vis the Soviet Union in the Baltic, and by the experience of having had to live with more powerful neighbors. Like the other continental countries, Sweden also has tended at different times to regard the US as inexperienced and impetuous in dealing with the Communist-dominated states, and as over-stressing the Communist military threat.

2) Swedish business circles in particular have tended to regard international economic controls on strategic goods, and the Swedish government's cooperation in applying these, as the result primarily of US initiative and pressure. This attitude stems in large part from the leading role taken by the US in Stockholm in the past in winning Swedish government support for

COCOM measures. During the past year a multilateral approach has been utilized in which the UK and France have joined with the US in taking up with the Swedish Government trade control problems. Disappointments in trading with the USSR and lessened dependence on Polish coal have also served to soften Swedish criticisms of the US.

Sweden has been critical of the sanctions contained in the Battle Act even though its provisions have not been applicable to Sweden. Swedish sympathies were clearly on the side of Denmark, for example, at the time of US objections to the delivery of Danish built tankers to the Soviet Union in 1952 and 1953.

VI. DENMARK

Denmark accepts in principle the concept of restricting the sale of strategic goods to the Communist-dominated world, but wishes to have the term very narrowly defined. Economic controls as such are not regarded as having a significant effect on the war potential of the Soviet bloc. Beyond this, Denmark looks upon East-West trade as something which should be eagerly pursued as economically and politically desirable. Nevertheless, Denmark has refused to sign a trade agreement with the USSR because the latter insists on the inclusion of tankers in the list of goods to be traded.

Denmark's attitude is strongly influenced by regard for the country's specialized economy which is dependent upon a relatively high level of foreign trade. To achieve optimum stability and volume in their trade, the Danes want extensive international markets. They do not see very favorable prospects for increased and stable trade with the US which they consider a highly

restrictive and unpredictable trading partner. Moreover, for the past 18 months a serious deterioration in the nation's reserves of EPU currencies has enhanced the already strong desire to seek more trade with the East. A chronic unemployment problem has worked to the same end. The Danes also feel that the COCOM limitations on East-West trade have not only lost them some traditional business without providing alternatives, a Communist theme to which the government is sensitive, but have put Denmark with its specialized exports in an especially unfavorable bargaining position vis-a-vis the Communist bloc which has shown a particular interest in ships. The Danes want as much flexibility as possible in their current efforts to renew trade talks with the Soviet Union which were broken off in the summer of 1954 over Danish refusal to deliver additional tankers. As a result, on shipbuilding the Danes have strongly insisted on concessions to their views on quantitative controls and speed limitations on several classes of commercial shipping.

There is also a widespread conviction in Denmark that trade with the Soviet orbit will have a salutary effect on the relaxation of world tensions. In addition to avoiding the feared specter of economic warfare, it is also looked upon as a device for maintaining the economic dependence of the Communist bloc states on the West. Co-existence is looked upon by government and people alike as a vital necessity. This view is a product of Denmark's military weakness in the face of a pronounced strategic vulnerability, and a legacy of pacifism, anti-militarism and neutralism that still influences important segments of the population.

Denmark has tended to regard strategic controls as primarily a product of unilateral efforts by the United States, a view strongly influenced by

Danish experience. It was the US alone, for example, that attempted publicly under the terms of the Battle Act to dissuade Denmark from making delivery of two 13,000 ton tankers to the Soviet Union. This effort was indignantly denounced as unwarranted interference in Danish affairs on the ground that Denmark was morally and legally bound by its contract with the USSR and that COCOM regulations took specific cognizance of exceptions for such prior commitments.

VII. GREECE AND TURKEY

On the whole, controls on trade with the Communist countries are accepted uncritically in Greece and Turkey. Such controls do not call for a significant sacrifice on the part of either country. Neither has any important quantity of strategic commodities to offer the Soviet bloc or any possibility of conducting an extensive trade with the Communist Far East. Moreover, both countries have closely associated themselves with the US in the cold war and are inclined to regard adherence to the US conceptof economic defense as an inevitable element in that association. Greece and Turkey look to the US as the prime source of the assistance they require in building military strength and in economic development objectives to which they attach the first importance and which they believe are far more likely to be served by a close relationship to the US than by unrestricted trade with the Communist countries.

VIII. JAPAN

1. Japanese Attitudes toward Economic Defense

In Japan there has been relatively little understanding of or sympathy for the economic defense program on the part of the general public and little positive support for the maintenance of export controls within business circles and certain agencies of the government itself. At least three broad factors appear to shape Japanese attitudes in this regard: uncertainty as to the present necessity for or effectiveness of export controls, the high priority given to the expansion of trade in order to achieve economic self-support, and the national drive to achieve increasing independence in the realm of foreign policy.

(a) Uncertainty as to the necessity for or effectiveness of export controls — There is present in Japan little sense of imminent war or fear of direct Communist military threat, a fact in part attested by the slow pace of Japanese rearmament efforts. The attitude of successive Japanese governments increasingly has reflected the ready response of the public to signs of a relaxation of international tensions, and it is the announced policy of the Hatoyama administration to encourage such a tendency by promoting closer relations between Japan and the bloc. Despite an increasing awareness of the political objectives underlying Communist trade offers, most Japanese apparently are confident that their national security will not be endangered by an acceptance thereof.

In addition, the view is not uncommon in government and business circles that export controls have not in fact weakened Communist China's

military potential but rather have forced Peiping to depend upon the USSR not only for its war materiel but for its industrial development. The inevitable corollary of this view is that freer trade between the mainland and the non-communist world may in fact weaken the Sino-Soviet axis by providing an alternative to that dependence.

(b) The pressures to expand trade -- Few, if any, national policies are given a higher priority in Japan than the expansion of international trade in order to achieve economic self-support. Despite the admitted importance of expanding Japan's markets in Southeast Asia and other areas of the free world, history and geographical proximity have combined to sustain the notion that mainland China is a natural market of prime importance.

The widespread acceptance of this view has lent credence to left-wing criticism that export controls are largely responsible for Japan's economic ills -- a view assiduously cultivated by domestic and foreign communist propaganda. Among the most vigorous exponents of this view have been small businessmen and the Japanese trade unions, whose members are confronted with the growing threat of unemployment. Moreover, little effort has been made by the press or the government to counter the false impression that export controls are the principal cause for the small volume of trade with Communist China. This impression has persisted despite the fact that a substantial reduction in those controls during 1954 apparently had little effect on trade levels.

Many Japanese trade experts and representatives of major industrial concerns acknowledge the unlikelihood that trade with the mainland could

again reach prewar levels. Even if controls were completely eliminated, procedural and financial difficulties, the relatively high price of many Japanese commodities, and the inability or unwillingness of Communist China to supply the exports desired by Japan would continue to limit an expansion of trade. Nonetheless it is argued that Japan cannot afford permanently the sacrifice of such a natural market, however limited. The ancillary point frequently is made that Japan's present difficulty in maintaining trade controls is increased by the failure of the free world to assist Japan in finding alternative markets and sources of raw materials.

(c) The impact of nationalistic sentiment — As in other aspects of its foreign policy, Japanese attitudes toward participation in a program of economic defense increasingly have been influenced by the desire to achieve a position of equality with other nations and greater independence of action in the conduct of its foreign policy. It is significant in this respect that Japan was initially committed to the economic defense program during the period of Occupation. This circumstance may account for the fact that Japanese criticism of continued participation in that program appears to stem, at least in part, from a sense that Japan has not been free to exercise an independent power of decision in an area vitally affecting its national interests.

The operation of such nationalistic sentiments was clearly evident in Japanese efforts to obtain cancellation of the bilateral agreement concluded with the US in September 1952 by which Japan maintained a higher level of controls on its China trade than any other COCOM country except the US and Canada. Prior to its cancellation in April 1954, Japan argued that the obli-

derogation of Japanese sovereignty. Similar sentiments also have motivated Japanese efforts to obtain a reduction of CHINCOM controls to COCOM levels. In this case, Japan has insisted that the differential in controls enables West European countries to engage in indirect trade with Communist China through the East European satellites. This, it is pointed out, not only discriminates against Japan but defeats the purposes of the economic defense program. Even more significant, however, is the substantial Japanese concern that West European countries will have established themselves strongly enough to exclude Japanese competition when and if controls on mainland trade are removed.

The adverse impact of nationalistic sentiments upon Japanese attitudes toward the economic defense program is heightened by the prominent role played therein by the United States. In large measure, Japanese attitudes in this respect mirror the resentments arising from the conflict between Japan's necessary economic dependence upon the US and its drive for greater independence of action in the realm of foreign policy.

Experience with the bilateral agreement suggests that Japan's co-operation can be more readily obtained if an economic defense program is undertaken as a multilateral program in which Japan regards itself as occupying a position equal with all other members. To date, however, COCOM does not appear to have satisfied completely this need. Although the government has demonstrated an increasingly independent attitude towards the US in its activities within COCOM, the Japanese public tends to regard US policy as the major determinant of the decisions of that organization and of Japan's role in that organization.

2. Japan's Observance of Trade Controls

The Japanese government has for the most part faithfully observed its international commitments in matters of economic defense and has effectively administered its export controls on trade with the Communist bloc. To date, the threat of sanctions has not been necessary to obtain such co-operation and the government itself has taken effective action against individual firms suspected of violations.

In the final analysis, however, the hesitation to flout US opinion and the fear of the loss of vital support and protection probably have been the chief factors in insuring Japan's effective participation in the economic defense program. Only less important in this regard is the sensitivity of both government and business to the possibility of counteraction by Nationalist China, one of Japan's major trading partners in Asia.

It is not likely, therefore, that Japan will unilaterally abrogate its obligations to the economic defense program. Domestic political pressures, however, will continue ~~to require~~ on the government to facilitate the extension of trade with mainland China within the limits of the present export controls while at the same time seeking a reduction of those controls [at least] to COCOM levels. Inability of the government to make some progress in this direction seems certain to arouse resentment and weaken its ability to continue effective participation in the economic defense program.

IX. SOUTHEAST ASIA

In general, the countries in Southeast Asia have adhered to the UN embargo on the export of strategic commodities to Communist China, the measure of Western economic defense principally at issue in the area. Only minor shipments of rubber have been made and most well-informed officials in Southeast Asia recognize that potential trade with Communist countries is probably limited. Nevertheless, there is considerable pressure for expanded trade, notably with Communist China, in the expectation that such trade would ameliorate serious economic problems and satisfy basic political objectives.

Because of their policies of political neutrality, Burma and Indonesia are particularly anxious to free exports of restriction and are unlikely to find any control arrangements satisfactory so long as, in principle, participants in controls are committed to sanctions against the Communist Bloc. More than other countries in the area, Burma and Indonesia can also be expected to react adversely to the threat of punitive action for non-compliance with export controls. These countries most recently expressed their disapproval of the control system at the Bandung Conference in April 1955 when they seriously questioned the UN embargo.

The considerable and growing gap between US and Burmese attitudes toward trade controls stems from Burma's basic policy of neutrality and from its current desire to expand trade with any country able to assist in a solution of Burma's surplus rice problem. As a matter of policy, therefore, Burma is prepared to conclude trade or economic assistance agreements with

any nation, providing no restrictive political requirements are included. In the Burmese view, US economic policies are insufficiently oriented towards relaxation of tension in the Far East at a time when wars in the area have been terminated. Friendly relations with Communist China are believed to be especially important, given Burma's exposed strategic position. In these circumstances, the government has negotiated a general trade agreement with Communist China; however, no embargoed items have as yet been shipped under this agreement and there are no indications that commitments for such shipments have been made.

The Government of Indonesia favors an expansion of trade with the Sino-Soviet Bloc, particularly with Communist China. This policy is chiefly intended to demonstrate Indonesia's "independent" foreign policy, but there is also some belief that Communist China would be a valuable market for Indonesian rubber and thus provide some relief for Indonesia's difficult economic position. There is, therefore, persistent pressure within the country for a relaxation or termination of controls, which is particularly exploited by the important Indonesian Communist Party and its numerous front organizations. In practice, however, Indonesia has deliberately avoided a sharp break with the export controls system, and trade agreements executed with most Communist areas omit firm Indonesian commitments for delivery of strategic commodities. And the immediate importance of the export control issue to Indonesia has been somewhat reduced by the recent rise in world rubber and tin prices.

Other countries in the area are in basic accord with US economic

defense policies. They closely restrict trade with the Bloc, which, in any event, would probably be small. The anti-Communist orientation of the Philippines, its foreign policy alignment with the US and the close economic ties of the two countries are the primary basis for Philippine adherence to East-West trade controls. Thailand's policies stem from a basic political decision to support the US and the free world in return for assistance in developing a capacity to resist Communist expansion. Since the US supports strong trade controls and these restrictions impose little hardship especially when compared with the foreign aid received, the Thai virtually embargo all trade with the Communists, including non-strategic items. Trade restrictions have not been a major issue in South Vietnam, Cambodia or Laos where they are accepted as a condition of US aid that entails only minor economic losses.

Although policies on trade controls are set for Malaya in London there has been a general willingness in Malaya to accede to these controls. However, some local business interests, particularly among the Chinese, have exerted pressure on UK officials for a relaxation of controls with a view to the possible expansion of the rubber trade and to enhancement of Singapore's position in entrepot trade.

X. SOUTH ASIA

India and Ceylon lack sympathy with the US concept of economic defense. Pakistan is at best lukewarm. That concept appears to many Indians, and in some degree to Ceylonese, to be an extension of the US emphasis on military defense -- an emphasis which they believe increases tensions in the cold war and makes hostilities more likely. Moreover, they have some confidence that increased East-West trade in itself contributes to the reduction of tensions. They also believe that restrictions on trade are self-defeating in that they penalize peoples -- in non-Communist as well as Communist countries -- striving to raise their living standards. "Economic defense" thus delays increased prosperity that hinders the spread of Communism.

South Asians resent the threat of withholding US aid to countries that do not conform to the provisions of the Battle Act. Positive offers to induce compliance with the Act would probably encounter no less resentment in India; in Ceylon, such offers, provided they involved substantial aid, might be acceptable. The South Asian countries were unwilling firmly and publicly to commit themselves to support the UN Additional Measures Resolution of 1951. That unwillingness is as strong in India in 1955 as it was four years ago, based on reluctance to take any position that might compromise its independent foreign policy. Unwillingness has declined somewhat in Ceylon. In Pakistan it has been largely submerged in the current orientation of the country's foreign policy toward the US.

In fact, however, only Ceylon presents a serious obstacle to the

implementation of US economic defense policies in the area. India with few exceptions does not export its strategic commodities and in any case, its trade with Communist countries is very small. Pakistan's exportable commodities include no items on the US list of strategic goods; if that were not the case, the country's understandings with the US would dictate caution in circumventing US controls. Ceylon, whose present anti-Communist government might be favorably disposed to the US control system, disregards it in practice on the basis of economic necessity.

Though Indians have paid more attention than any other South Asians to the issues involved in US economic defense policies, they also recognize that Communist propaganda over-estimates the value of Communist trade with non-Communist countries. Accordingly, though increased economic intercourse with the USSR is approved in part for its psychological value in underlining the country's independent foreign policy, there is a wait-and-see attitude regarding the practical benefits to India. Pressure from Communists in Parliament and elsewhere may force the government publicly to seem more unquestioningly receptive to Soviet trade offers than it actually is. In some business quarters, increased trade with Communist countries may be viewed as a healthy development tending to force complacent, established shippers to India to become more aggressive in their salesmanship and to offer more competitive prices.