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of

Report to the President

on

U.S. Policies and Programs in the Economic Field which may Affect the War Potential of the Soviet Bloc

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INTRODUCTION

It is abundantly clear that the Soviet communist threat to the security of the free world cannot be removed at this time through the processes of negotiation. The principal hope of averting global war, short of complete subjection to Soviet communist aims, lies in the building of great military and economic strength in the free world relative to that of the Soviet orbit.

The creation of superior strength in the free world, relative to that of the Soviet-communist world, requires the adoption of two kinds of measures: positive measures in the free world to build up its armed forces and increase its production of goods and services and strengthen its political framework; and negative measures to limit or slow down the growth of the Soviet bloc war potential, to limit its production of goods and services, and weaken its internal political ties. Short of open warfare, the negative measures in the economic field must consist largely of controls imposed by the free world on its trade and financial relationships with the Soviet orbit with the objective of impeding to the greatest possible extent Soviet-communist access to outside economic resources. Additional measures for weakening the economic potential of the Soviet bloc are under consideration by the appropriate agencies of the Government. Because of their security aspects these measures are not included in this report.

As the

As the threat of Soviet aggression has grown, the United States, and under its leadership other important nations of the free world, have progressively adopted stronger and stronger measures, both positively to build up their own strength and negatively to reduce the strength of the Soviet orbit. The establishment of the North Atlantic Treaty Organization, the European Recovery Program, and improved international relationships in the fields of trade, finance and economic development, have helped constructively to create strength in the free world. Negative measures to impair the Soviet war potential began with the imposition by the United States, in March 1948, of export restrictions or prohibitions on the shipment of strategic goods to the Soviet Union and the satellite countries of Eastern Europe. In the following months and years these controls were progressively tightened, and, through international negotiation, were extended to cover exports of similar items from Western European countries. Today, an important segment of the free world's exports to Soviet-dominated areas has been prohibited or brought under control.

The invasion of South Korea by communist forces has served as an unmistakable warning to the free world that it must accelerate its efforts to develop a preponderance of military and economic strength over that of the Soviet bloc.

bloc. The defense mobilization program of the United States and Western Europe is a constructive response to this warning.

It is also necessary to step up our efforts to impair the strength of the Soviet world through the intensification or extension of controls over its trade and financial relationships with outside areas. The object must be to do the greatest amount of damage to the Soviet economic machine on which its military power depends, with the least amount of damage to the economy and political unity of the free world.

The present report has been prepared with a view to recommending the measures which should now be adopted, or continued, to weaken the economy of the Soviet bloc consistently with the objective of building greater economic strength in the free world.

As a basis for its conclusions (Part I) and recommendations (Part II), the report in Part III surveys the vulnerability of the Soviet bloc to western economic controls, analyzes the position of the free world countries in their trade with the Soviet bloc, and examines the effectiveness and practicability of various control techniques that are available.

PART I

RESULTS OF ANALYSIS

1. The economy of the Soviet bloc is, to a large extent, free from dependence on trading relationships with the non-Soviet

the non-Soviet world. Segments of its economy, however, and particularly some closely related to the war-making potential, are vulnerable to external pressures. These vulnerable spots are, broadly speaking, in the fields of machinery and equipment, precision tools, ball bearings, electronics, certain non-ferrous metals, rubber and certain grades of essential minerals. Although the build-up of the Soviet war potential can of course be most effectively hampered through an enforced complete cessation of economic relations with the non-Soviet world, however, selective controls directed at vulnerable spots can achieve substantially all of the desired results.

2. Many countries of the free world are dependent in varying degrees on trade with the Soviet bloc. Complete stoppage of this trade would result in serious economic dislocations, particularly among the countries of Western Europe. These dislocations could be mitigated to some extent by gradual readjustments which would require the development of alternative sources of supply and the reorientation of certain Western European markets to absorb goods now moving to the East. These readjustments may well require additional financial and material assistance from the United States, as well as arrangements to ensure equitable distribution of goods in short supply.

3. The effectiveness of external pressures on the Soviet bloc will, to a large extent, depend upon the degree of cooperation of the members of the non-Soviet world. In this

this connection, many lines of action on the economic front are possible during a state of open warfare that cannot be followed effectively in a "gray period". For example, the enforcement of a complete cessation of economic relations requires resort to such belligerent acts as blockade and contraband control. The United States cannot at this time obtain sufficient cooperation among the other non-Soviet powers to make such a policy effective, and if the United States should attempt to employ all possible measures of persuasion it would alienate important allies, present and potential, and weaken the political framework of the free world.

4. The principal nations of the non-Soviet world will, however, cooperate in a series of measures, short of full-scale economic warfare, which can materially retard the building of the Soviet war potential. Some of the neutral countries will not participate fully, but to some extent their lack of cooperation can be offset by special measures. It is important, however, in order to retain the collaboration of other countries, to make clear to them that our policies and programs are closely related to retarding the building of the Soviet war potential and also to make clear the reasons for any proposed changes in policies, programs or techniques.

5. As many of the measures employed in World War II to damage the German war economy are of limited usefulness against the relatively self-sufficient Soviet bloc, new techniques for exploiting the latter's weaknesses should be constantly sought. These techniques should be designed not only

not only to weaken the Soviet war-making potential, but also to increase strains in relations within the Soviet bloc. Because of their security aspects, certain techniques in this particular field should be closely guarded and not dealt with directly as part of the more traditional measures.

6. Plans should be formulated and made ready for implementation to deal with a situation of full-scale economic warfare in the event the Soviet bloc initiates such a policy, or in the event that developments make it advisable for the non-Soviet world to adopt this course.

7. The economic strength and cohesiveness of the free world will determine, in large measure, its willingness and ability to take adequate measures against the Soviet bloc. Accordingly, the various aspects of our foreign economic policy which are aimed at the positive goal of building free world strength should be adapted to the present situation and augmented. Among the programs which lend themselves to this objective, and which can be utilized to develop the alternative sources of supply referred to in paragraph 2 above, are our various loan and grant programs, Point IV, and the programs for trade barrier reduction in the free world.

PART II

RECOMMENDATIONS

It is not possible to make final recommendations covering the entire subject under review without further study and consultation with other agencies of the Government. However, the following recommendations are submitted with a view to setting a pattern for immediate action and establishing machinery for carrying forward the consideration and development of policies and programs. Because of the interests of certain other departments and agencies of the Government in this subject, and because some aspects of it have been before the National Security Council, it is suggested that these recommendations be referred to the Council for review and consideration by it and other appropriate departments and agencies.

A - RECOMMENDATIONS ON SUBSTANTIVE MEASURES

Export Controls

1. The U.S. Government should, pending further developments in the U.N., continue to prohibit all exports to communist China, Manchuria and North Korea, but should apply licensing controls so as to permit Hong Kong and Macao to procure from U.S. sources imports for local uses and for trans-shipment to non-communist destinations.

2. The U.S. Government should extend its present export licensing system over trade with the Soviet Union and its Eastern European satellites by requiring an export license for all products proposed for shipment to these

 areas.

areas. In licensing such exports, the United States should continue to prohibit exports of all items of significance in the atomic energy field, all arms, munitions and implements of war, all items which are determined to be in short supply, and all items which if exported in any quantity would contribute to the Soviet war potential (the so-called I and I-A lists). The U.S. should normally deny the issuance of licenses for all items which if exported in substantial quantities, would contribute to the Soviet war potential (the so-called I-B list). All other items should be kept under constant surveillance through the comprehensive licensing system recommended above. Specific items should be added to the list of commodities which are restricted or prohibited (I, I-A or I-B lists) on a selective basis and in accordance with established procedures and existing criteria for control, whenever such action is justified for short supply or security reasons.

3. The U.S. Government should prohibit or restrict, on a case-by-case basis, shipments of important strategic goods to friendly countries, in accordance with policies and procedures which have been laid down by the National Security Council, whenever necessary to prevent the frustration of U.S. security export controls or the misuse of U.S. economic or financial assistance and when such action would not endanger other U.S. security objectives of equal or greater importance. The U.S. over-all security objectives should be controlling in the implementation of Section 117(d) of the Economic Cooperation Act of 1948, and of Public Law

843, Section 1304 (the Cannon Amendment).

4. The U.S. Government should continue to provide vigorous leadership in the expansion and strengthening of the security export controls of the Western European countries, recognizing however that considerations of political feasibility, military risk and economic cost make it undesirable to press for European controls completely parallel to those exercised by the U.S. The U.S. should continue to press for (a) embargo to the Soviet bloc of scarce materials or equipment needed for Western defense programs, (b) international agreement to embargo or limit shipments of additional goods which are not yet fully controlled but have been recognized by most Western European countries to be of strategic importance, (c) more effective international controls over trans-shipments and illegal trade, (d) maximum cooperation by countries, such as Sweden and Switzerland, which do not at present participate in multilateral export control arrangements, (e) measures to minimize past and future trade agreement commitments to supply goods of strategic importance, (f) measures to promote coordination among the Western European countries in their trade agreement negotiations with the East, and (g) improved orgnizational arrangements in the Coordinating Committee in Paris (COCOM) and in the NATO to further these objectives.

5. The U.S. should seek the cooperation of the American Republics and where necessary that of other countries in applying export controls to direct shipments and trans-

shipments to the Soviet bloc of items of strategic significance or in short supply.

6. The U.S. Government, in light of the Chinese Communist aggression in Korea, should press for the application of effective controls on exports to China by the maximum number of countries. This effort should be related to any action by the U.S. to press for U.N. agreement to impose economic sanctions on China. Our objective should be controls which could be applied willingly by the maximum number of countries. It is likely that agreement through U.N. channels could best be obtained to prohibit a list of goods including arms, ammunition and implements of war, petroleum, and industrial equipment useful in producing war materials.

7. Multilateral arrangements among free world countries for the equitable distribution of materials in short supply should be used by the U.S., to the greatest practicable extent, to deny or limit shipment to the Soviet bloc.

Preclusive Operations — this section inadequate and misleading

8. Arrangements for the procurement of commodities in short supply, such as government-to-government purchase agreements, should be designed in such a way as to deny or limit shipments to the Soviet bloc, to the extent that this would not interfere with the primary procurement purpose of the arrangement.

9. To the extent that allocation and normal purchase mechanisms do not sufficiently limit materials to the Soviet bloc in which the bloc is vulnerable, the United States, after consultation with its major allies, should engage unilaterally

unilaterally or jointly in covert preclusive buying and the preemption of productive facilities to achieve this objective. Preclusive buying operations should concentrate in the first instance on such items as industrial diamonds, jewel bearings and mica, rather than bulk items. Efforts at the preemption of industrial capacity should be directed primarily at capacity capable of producing critical manufactured products in countries which do not voluntarily prohibit the movement of these products to the Soviet bloc.

Financial Measures

10. The Strategy Board referred to under Section B of these recommendations should determine the point at which export controls have become so restrictive and other economic and political relations so curtailed that blocking of the dollars and dollar transactions of the USSR and satellites would be appropriate. If this Government decided that export controls should be operated in such a way as to constitute in essence a trade embargo, very serious consideration should be given to the imposition of blocking controls unless there are clear policy reasons for withholding such action.

11. With respect to gold, it is recommended that the Treasury continue to study this subject with a view to evaluating measures of international collaboration which might prove fruitful in reducing the ability of the Soviet bloc to utilize gold, to be applied at such time as the decision is made to undertake financial controls of this character.

Black Listing

Black Listing

12. It would be undesirable at this time to publish a "black list" or "proclaimed list." However, to assist in tightening the enforcement of existing export and other controls and as a preliminary step in preparing a more formal "black list", arrangements should be made to develop a centralized file of information on individuals, firms and corporations suspected of evading such United States and allied controls as are from time to time in effect.

13. The determination of the possible desirability of publishing a "black list" at a later date should be made only after careful consideration by the Strategy Board referred to under Section B of these recommendations.

Technology

14. The U.S. should strengthen its security controls over U.S. plants and factories employing advanced technological processes to prevent access by unauthorized persons.

15. The U.S. should press for more effective action by COCOM countries to implement their agreement that "the object of the embargo or quantitative controls should not be defeated by the export of technical assistance, design data, manufacturing technique, and specialized tools for making any controlled items."

16. The U.S. should consider the feasibility and effectiveness of an embargo on the export of technical data to the Soviet bloc, having in mind the fact that the U.S. receives some technical and scientific periodicals from the U.S.S.R. of limited intelligence nature, and the need for

cooperative

cooperative action by other countries.

Shipping

17. The U.S. should seek coordinated action on the part of the important maritime powers to prohibit the carriage of goods on International List 1 to Soviet Bloc destinations.

18. The U.S. should establish a system for current reporting on stocks of important materials in South and Southeast Asia in order to be prepared to move them promptly to safe areas should the need arise.

19. The U.S. should explore the feasibility and desirability of instituting, in cooperation with other major maritime powers, a system of ship warrants and of control over the issuance of ship stores in aid of our controls on the movement of prohibited goods.

Development of Alternative Sources of Supply

20. The appropriate agencies of the Government should expedite consideration of means for developing alternative sources of supply of goods and materials needed by the free countries of the world and now obtained by them from the Soviet bloc.

B - RECOMMENDATIONS AS TO ORGANIZATION

PART III

Bases for Conclusions and Recommendations

A - VULNERABILITY OF THE SOVIET BLOC TO EXISTING AND TIGHTENED WESTERN ECONOMIC CONTROLS

In reassessing the vulnerability of the Soviet bloc, the Department of State has had access to the intelligence reports of the Defense Establishment and other relevant sources. It is believed that the resulting estimate, set forth in summary form below and in greater detail in Appendix A, represents the best judgment of the United States Government. OIR Report

The Soviet Policy of Self-Sufficiency

The Soviet bloc has always pursued a deliberate policy of reducing to a minimum its vulnerability to outside economic pressures.

Not only does the Soviet Union have extensive natural resources but each of the Five-Year Plans has had as a principal objective the building up Soviet productive capacity in deficient areas, even at the cost of great wastage of resources and energies. The USSR is today capable of meeting within its own boundaries the bulk of its operating requirements in every major area of production. Where shortages of particular commodities continue to exist, a systematic attempt has been made to provide a cushion against an interruption of outside supplies through extensive stockpiling.

Soviet

Soviet emphasis on self-sufficiency has been extended to the satellite countries; although the dependence of these countries on the West remains substantially greater than that of the USSR itself, this dependence has been greatly reduced as compared with pre-war.

The Chinese Communists have given every indication that they too will follow a policy of enforced economic isolation from the Western world. However, factors of geography and economic structure seriously restrict the degree to which China can be integrated with the rest of the Soviet bloc.

The Nature and Extent of Soviet Sphere Vulnerability

Despite strenuous efforts to develop self-sufficiency, the Soviet bloc is still dependent to an important degree on the West for the rate at which it can sustain its long-term growth. The Soviet Union itself, most of the European satellites, and China, are in relatively early stages of industrialization. All of them need from abroad industrial equipment, especially high quality machines and instruments, some vital raw materials and semi-finished goods, "pilot plants", and technological information.

The Soviet Union and its satellites are also short of a number of commodities that are necessary for the operation of their economies at the current level. While substantial stockpiles of these commodities have been built up (probably in most cases at least a year's requirements), the relief that these would offer in case of an interruption of imports would be temporary.

The entire

The entire bloc constantly needs replacement parts for the vast amount of foreign equipment acquired in former years. It is estimated that approximately 35 percent of the machine tools in operation in the USSR are western built. The bulk of this equipment is now over five years old and is already beginning to present serious maintenance problems because of lack of spare parts. The problem is further complicated because most of this equipment is of an especially complex type, obtained from abroad because of Soviet inability to produce it domestically. For example, it is estimated that 75 percent of Soviet specialized machine tools are of foreign make. The constantly growing spare parts problem is therefore concentrated in the weakest and most important sector of the Soviet-orbit industrial establishment.

The importance that the USSR and its satellites attach to the continuation of supplies from abroad is directly evidenced in a number of ways. It is estimated that in 1950 the USSR and its satellites, including China, imported roughly $1.7 billion worth of goods from the outside world. Although this amount is little more than 1 percent of the aggregate output of the Soviet bloc, it consisted with few exceptions of items essential for military preparedness and for the expansion of the industrial base of the eastern countries. It included, in particular, prototypes which embody Western technical improvement.

Another indication of the importance of supplies from the West is the fact that the USSR and its satellites have shown great official sensitivity

sensitivity over western export control policies. Moreover, they have made strenuous efforts to obtain controlled items. Irregular and covert eastward shipments have assumed large proportions and range from complicated third country deals, utilizing frequently the facilities of free ports, to smuggling in knapsacks. Such imports are necessarily expensive because of circuitous hauls, price gouging, and middleman commissions and therefore strongly indicate pressing Soviet and satellite needs.

Specific Vulnerability Targets

Existing controls over exports to the Soviet bloc are aimed at curtailing current production and development prospects. The most recent vulnerability studies which in the main confirm the accuracy of the decisions on which existing controls are based, indicate that the Soviet bloc is most vulnerable from this viewpoint in the following commodities: Swedish iron ore, on which satellite steel output depends unless and until reconversion to Soviet ores can be effected; alloy steel, including nickel but not including manganese and chrome; tin; copper; industrial diamonds and gems; piezo-electric quartz; sulphur, pyrites, and sulphuric acid; special types of graphite, mica, asbestos and their manufactures; natural rubber, of which the bloc has stockpiles sufficient for only one or two years; ball and roller bearings, including high-grade bearing steels and parts; electronic equipment, including materials and component parts; abrasives, especially critical grain sizes;

grain sizes; all types of replacement parts for equipment previously acquired by the Soviet bloc in the West.

In addition to the foregoing, the continuation, or institution where necessary of an embargo on the export of the following commodities to the Soviet bloc would substantially impair ability to raise production above existing levels: equipment for petroleum exploration, drilling, and refining, especially certain crucial components, such as drills; power generating equipment; anti-friction bearing producing equipment; machine tools (principally complex, specialized and automatic types); precision instruments and testing equipment; complete plants of all types, but especially chemical plants, steel and aluminum mills, and building materials plants; blast furnace equipment and electric furnaces; laboratory equipment, and vessels and chartering services.

Soviet Bloc Adjustment to an Embargo

In part, the USSR and its satellites would be able to counter a western embargo of these commodities. A widespread net of more or less covert trade channels has been developed in recent years through which the Soviet bloc continues to obtain products on Western control lists. However, the volume, could be reduced to a significant extent if full cooperation of the major non-Soviet producers were secured.

In those

In those cases where it became impossible for the Soviet bloc to procure vitally needed imports some compensating internal adjustments could be made. Labor, fabricating facilities, and materials could be reallocated and synthetics and substitutes could be utilized; but such measures could only partially offset the damage resulting from Western trade restrictions. Since Soviet plans in allocating resources already give top priority to the development of capacity for military production and heavy industry as opposed to consumers' goods, reallocation of priorities can only take place within an already narrowed area. Furthermore, a scarcity is so general throughout the Soviet sphere that there is but a small cushion for adjustment, particularly if a number of commodities are involved simultaneously.

Despite Soviet counter-measures, a control program encompassing the commodities listed above and receiving the support of at least the major western producers would impair current production and make difficult the fulfillment of existing plans. In the USSR and the European satellites, especially the latter, a lower standard of living would be forced on the people. Soviet domination of its Eastern European satellites would permit the USSR to assign itself priority on critical items of mutual interest without weakening Soviet control.

With respect to China, elimination of a substantial part of the $300 - $350 million of imports received in 1950 would have relatively

relatively little over-all economic impact. While such a move would severely affect the "modern sector" of the economy, the Chinese Communists do not depend vitally on this sector for maintenance of an operating administration or for support of their military and police establishment.

The USSR, and even more the European satellites and China, would find it difficult to carry out their plans for rapid, balanced development of their economies. The Soviet bloc's potential to wage a prolonged war of attrition would be considerably impaired but the capability of the Soviet Union to conduct a general war of limited duration would not be materially affected.

B - ECONOMIC AND POLITICAL ASPECTS OF TRADE OF NON-SOVIET COUNTRIES WITH THE SOVIET BLOC

The problems of the individual non-Soviet countries in curtailing or embargoing trade with the Soviet bloc vary widely. Some of these problems are essentially economic; some essentially political. Their magnitude depends in good part on how heavily the country relies on the bloc as a market for its goods or as a source for the materials it needs. Much depends also on the internal political complexion of the country; a strong indigenous Communist party, a tradition of successful neutrality, or a distrust of colonial powers can be controlling considerations.

The summary that follows indicates simply the range of these problems. The degree of independence between the Soviet and non-Soviet worlds

worlds is considered in more detail in the analysis (attached as appendix B) prepared by the Economic Cooperation Administration in close cooperation with the Departments of State, _____ and _____.

Economic Aspects

For the United States, the economic problems of terminating trade with the Soviet bloc are almost insignificant; our trade with the entire bloc, never very large, has already dwindled as a result of export and funds controls, to a point where it no longer has much importance to either side. Our strategic imports consist of some manganese and tungsten, for which alternative sources would have to be found. Canada's position is much like the United States; her chief problem would be the loss of the Chinese market for a range of products which, for the most part, could easily be absorbed in the West. Latin America's problems also would be marginal; she would have to forego moderate amounts of Czech manufactured products which she might have some difficulty replacing from Western sources.

The central problems of East-West trade lie largely in Western Europe from which the Soviet bloc derives the largest part of its imported fabricated products. For Western Europe the sudden loss of all East-West trade would be a serious blow to economic recovery.[1] This area would lose important food and raw material items. The industries

1. For a detailed analysis of the economic problems associated with a termination of East-West trade, see Appendix B, particularly Parts III and IV.

Nothing is said about alternative sources of supply!

industries of Sweden, Austria and Denmark would be crippled if they could not replace the coal they now receive from Poland and Czechoslovakia; Sweden and Austria would lose 15 per cent of their total energy supply, Denmark 22 per cent. Sweden would also have to replace its entire potash supply, now obtained from Eastern Germany. The United Kingdom would be hard-hit; it receives 30 per cent of its coarse grain imports from the Soviet Union, 20 per cent of its timber from the Soviet bloc and an added 35 per cent from Finland, and a significant amount of its acutely inadequate meat supplies from Poland and the USSR. Most of the Western European countries would suffer some loss in wood-pulp, the total amount for the group as a whole being quite large.

Western Germany's losses in being cut off from the bloc would be particularly heavy, partly because of her close ties with Eastern Germany. The artificial separation of these two areas by the present boundaries, if completed by an embargo, would compel painful adjustments in trade relations of all kinds. West Berlin is a particularly difficult aspect of the problem confronting all of Western Germany.

Western Europe's reliance on the Soviet bloc as a market is a less important problem than its reliance on the bloc for raw materials. Nevertheless, some segments of Western Europe's export industry would have difficulty in finding alternative markets. The Icelandic fishing industry, for example, which now relies on the Soviet bloc as a major market,

market, would have little chance to sell its product in the highly protected markets of the Western world; and some segments of Western Europe's agriculture would suffer for the same reason. In addition, machinery producers of the West who have orders in process being produced to Soviet specifications would have a difficult transitional problem of liquidating this liability.

Outside Western Europe, the principal economic problems are in those countries of the Near and Far East which border on the Soviet bloc. Iran, which supplies the bloc with insignificant amounts of some strategic items such as wool, relies heavily on the Soviet Union to absorb the otherwise unmarketable agricultural surpluses of its northern provinces. Afghanistan, which also contributes to the Soviet wool supply, depends on the Soviet bloc to supply it with its vital gasoline requirements. Hong Kong's population is largely employed by its entrepot and processing trade with Communist China. Japan obtains part of its vital coal needs from China. In each of these cases, the problem is insignificant in dollar terms but important, or even crucial, when measured by its effect on the economic life of the non-Soviet country it affects.

Political Aspects

The extent of the political problems of any country in curtailing or terminating trade with the Soviet bloc depends in part on the scope of the economic problems that such a move would create. In the United States, Canada and Latin America, where no significant economic interests are involved in a termination of East-West trade, public opinion is no obstacle to its termination. In Western Europe, where each successive step in export control has been paralleled by a shrinkage in the volume of essential commodities received from the Soviet bloc, there is widespread concern over steps which will cut further into these supplies.

But the economic impact alone does not determine political reactions and in some countries it is of secondary importance. In some Western European countries, such as France and Italy, there are large indigenous communist parties strongly represented in the parliaments and vociferous in their opposition to any move directed against the Soviet Union. In Sweden and Switzerland a policy of successful neutrality during World War II is deeply imbedded in the public mind. To a greater or less degree throughout Western Europe, there is a widespread reluctance to weaken further the few remaining ties with the satellite countries,

countries, particularly Poland and Czechoslovakia. And throughout the area, the realization that a war would turn Western Europe once more into a battleground pervades all political decisions. These are important limiting factors on the degree to which the Western European countries will go in curtailing trade, and it is therefore not practical for the U.S. to seek full parallel action.

Outside Western Europe, the political problems associated with curtailing Soviet trade have an even deeper significance and impose even greater limitations. The people of the Arab countries and of India, Indonesia and Ceylon are unwilling to be identified too closely with the western world. This basic attitude results in part from a reaction against the earlier political domination of these areas by the Western powers and reflects the recent growth of strong nationalism throughout the area. In India, Pakistan, Indonesia and other countries of the Far East, it reflects also the strong attraction exercised over the peoples by their communist neighbors.

C - TECHNIQUES FOR DENYING RESOURCES TO THE SOVIET BLOC

Whenever the Soviet bloc attempts to obtain resources from the free world, it is vulnerable at three steps in its efforts: it must find a source of the goods; and it must arrange transportation to move them to the Soviet bloc. Most measures intended to control or to deny goods to the Soviet bloc are directed at one or another of these three critical points. Accordingly, the summary and appraisal of these measures which follows discusses the controls at each of these points. The principal types of action which can be taken to deny goods at source are: complete embargo, selective export controls, and preclusive operations, including intergovernmental purchase arrangements, allocation schemes, and undercover purchases. These are considered separately below. Following them, measures to control funds are discussed, and then measures directed at the transport of goods. The question of control of technology is also considered, since only by this device is it possible to accentuate what is already the greatest single strategic shortage in the Soviet bloc, skilled manpower. Lastly, the relationship between these measures and certain of our positive programs for developing the economic strength of the West is considered.

1. Complete

1. Complete Embargo

The basic question in this entire field is whether the United States stands to gain more by advocating a complete severance of economic relations between the Soviet and non-Soviet worlds than it does by pursuing and advocating a policy of selective controls. In deciding between the two courses, a number of questions have to be answered. First, if a complete embargo were rapidly achieved, what would be the cost to the Soviet bloc as compared with a gradual and selective approach. Second, if a virtually complete embargo were in fact rapidly achieved, what would be the cost to the Western World as compared with a gradual and selective approach. Finally, if a complete embargo were announced as the United States objective for the free world, what effect would such an announcement have on the degree of co-operation of other countries in restricting trade to the Soviet bloc.

(a) Costs of an embargo to the Soviet bloc. It is clear that the costs of an embargo to the Soviet bloc would be greater, in the short run, than the costs of a program of progressively tightening our trade controls. The Soviet bloc receives value for the goods it exports to the West, or it would not continue to export them. Appraised in the longer run, however, it is less

is less clear that the Soviet bloc would be hurt by an early embargo. Self sufficiency is a conscious objective of the bloc. The rate at which this goal is achieved, however, inevitably depends in good measure on the pressures from outside; if we had been successful in cutting off crude rubber from the Soviet bloc some years ago for example, the project for synthetic rubber factories in the Soviet Union would probably be more advanced than it is now. The same is true of other critical products. Unlike the situation in the West, the Soviet bloc with its tightly controlled patterns of consumption, would have virtually no problem in finding within its own boundaries outlets for goods which are now exported.

(b) Costs of an embargo to the Western World. Some aspects of the cost of an embargo to the Western World are subject to a rough kind of measurement; others can only be appraised in qualitative terms. If trade were abruptly terminated with the Soviet bloc, the first job confronting the Western World would be to achieve a drastic reshuffling of its trade patterns; indispensable goods denied to the Western World by this action would have to be found elsewhere, while markets would have to be found for a variety of Western products now absorbed in the Soviet bloc.

The goods

The goods from the Soviet bloc for which alternative sources would have to be found are, principally, coal, wheat, timber, coarse grains, potash, meat, and sugar. Price considerations aside, alternative sources might be found: in the United States for coal; in the United States, Canada and possibly other countries for wheat; in Argentina and the United States for coarse grains; in Argentina for meat; in Cuba for sugar. Although part of the timber could be made up from the United States and Canada the world supply shortage would make alternative sources for the full amount difficult to find. Any undertaking to supply these products from the Western Hemisphere to be meaningful would need to be accompanied by firm commitments that Western Europe's needs would not be subordinated to United States domestic needs in any domestic allocation scheme. Moreover, the coarse grain demand could only be met if the United States were prepared to risk a significant decline in animal feedingstuffs available here, hence in domestic meat supplies. Western Europe's woodpulp and paper needs could not be met unless the Western Hemisphere cut back substantially on current paper use.

The effect of imposing Western Europe's added requirements on the Western Hemisphere's strained supplies would be

would be either to drive prices up, precipitate the need for more drastic price controls and rationing here, or both. These costs aside, the amounts which Western Europe would have to pay in replacing the essential supplies now obtained from the Soviet bloc would be on the order of $150 millions more than they are now paying for these goods.

Another element of the cost involved in a quick embargo arises out of the free world's loss of markets. For many products, no problem exists. The $400 millions spent by the Soviet bloc for rubber, cotton and wool in 1950 would presumbably readily be paid by the United States. The problem of providing markets for the type of product typified by Icelandic fish, that is, products not in acute short supply which are produced by highly protected industries is far more difficult to solve.

One added aspect of the costs of an embargo which is subject to rough measurement is the transitional problem of disposing of partially fabricated machinery being produced in the Western World to Soviet bloc specifications. While no figures are available to indicate the value of these products, a first approximation can be derived from that fact that annual sales of these products to the Soviet bloc have run at about

$200

$200 millions. The losses on the sale or scrapping of such products could therefore be managed.

The non-monetary economic costs of an embargo are probably more important than the actual dollars involved. Direct controls would have to be established in fields in which they are not now needed; European cooperation would have to be channeled for a time into dealing with crises of our own making; a supple monetary economic aid program would have to be devised and divided, absorbing some of the energies required to mount the defense program and the rearmament effort.

(c) Free world reaction to complete embargo. The answer to this question can be made unequivocally. An United States announcement that its objective was a complete embargo of the Soviet bloc would materially impair our efforts to obtain the cooperation of the rest of the free world on measures aimed at limiting the strength of the Soviet bloc. The reasons for this conclusion have been indicated in earlier sections of this report. The rest of the Western World has very much more to lose than we, in any severence of economic ties, many countries are much more immediately faced with the prospect of attack and invasion; some, though hostile to or fearful of the

of the Soviet bloc, are publicly committed to a policy of formal neutrality. Many countries of the Western World who would agree to specific measures directed at retarding the buildup of the war potential of the Soviet bloc, if these measures were presented on their merits, would reject the same measures if they were expressly labelled as steps in the direction of complete embargo.

If the United States were unilaterally to launch a complete embargo, without parallel action on the part of the rest of the free world, the only significant result would be the temporary gratification of an element of United States public opinion. United States exports to the entire Soviet bloc now run at the rate of less than $1,000,000 monthly and provide nothing of real significance to Soviet war potential. Imports might be reduced, in order to cut off a source of dollars usable to purchase strategic commodities in other parts of the world, or for subversive purposes, but such an operation would be ineffective without an effective program to sterilize Soviet gold holdings, about which there is little the United States can do unilaterally. Any benefit to be gained from completing the American embargo on exports at this time, in terms of satisfying a public demand for action in time of crisis, would almost certainly

certainly be offset by an increased American dissatisfaction in the early future with the failure of our allies to take similar action and a resulting strain on our relations.

Lastly the danger that a complete embargo may precipitate new or intensified military action by the Soviet bloc in areas such as Indochina and the Malay States is a risk which is difficult to appraise but one which must be weighed heavily in the balance.

2. Export Controls

Given the varying vulnerability of the Soviet bloc from sector to sector and the known limitations on multilateral action, export control measures applied selectively appear to offer the best method for curbing the growth of the Soviet war potential. It is also the area in which most progress has been made both domestically and internationally.

(a) U.S. Controls. The United States imposes an absolute embargo on shipments to the entire Soviet bloc of arms, munitions and implements of war, atomic energy materials, a broad range of industrial machinery, equipment and materials of highest strategic importance for the development of Soviet war potential and an increasing number of goods which are in short supply in this

this country. Several hundred additional items cannot be exported to the Soviet bloc without a license and licenses are customarily denied. A de facto embargo thus extends to all direct shipments of goods of recognized strategic significance. Careful screening, end-use checks and a procedure for penalizing those who violate export control regulations have also been instructed in an attempt to control the indirect shipments through other non-Soviet countries.

In the case of Communist China, Manchuria and North Korea, the U.S. embargo extends to all commodities and controls almost as severe are exercised with respect to adjacent entrepot points, especially Hong Kong and Macao.

A proposal for a further extension of U.S. export controls, short of complete embargo, is currently before the National Security Council. It would be a useful precaution at this time to require export licenses for all shipments to the entire Soviet bloc, in order to keep them under close scrutiny and to enable immediate cut-off if proposed shipments of particular items seem excessive. On the other hand, it would appear to be unnecessary and unwise, in view of the probable reaction abroad, to change the existing standards of control or substantially to widen the area of de facto embargo although it is clearly

desirable

desirable to prevent or limit the export of specific items additional to those now controlled whenever necessary for security reasons or to protect stocks of goods in short supply. Adequate procedures already exist for extending controls in these cases.

United States export control policy should be based on the recognition of the fact that the major problem at this time is to expand and strengthen the controls exercised by other nations, and that American leadership to that end cannot be exercised effectively if it appears that our policy and objective is virtual embargo against the Soviet bloc. The concept of "economic defense" as distinct from "economic warfare" should be maintained. However if new international developments require additional measures, the U.S. should be in a position to lead the way toward more extensive controls.

(b) Western Europe. All of the major industrial and trading nations of Western Europe, except Sweden and Switzerland, participate with the United States and Canada in a secret Coordinating Committee (COCOM)1/ which meets in Paris, for the purpose of developing agreed international

1/ In addition to the United States and Canada, the Consultative Group and its Coordinating Committee include the German Federal Republic and the following NATO countries: the United Kingdom, France, Italy, Belgium, Netherlands, Luxembourg, Norway and Denmark.

national export controls. A large measure of agreement has been reached among these countries, much of it in very recent months.

The European countries in the Coordinating Committee embargo to the Soviet bloc, including China and North Korea, all shipments of arms and munitions, atomic energy materials, and also about 85 percent of the present U.S. list of embargoed items and 25 percent of the U.S. list of quantitatively controlled items. Most of the remaining items on the U.S. control lists will either be subjected to quantitative limitation on shipments to the Soviet bloc or are being watched in order to determine whether restriction of shipments is necessary. In all, misleading Western European controls in one form or another extend to over 90 percent of the U.S. security lists.

In addition to imposing selective embargo and limitative controls on trade with China and North Korea, the Western European countries have taken action jointly with the United States to see that shipments of petroleum are not made to China from sources outside the Western European and North American areas. A number of Western European countries also embargo all trade with North Korea.

When the agreements so far reached through COCOM are compared with the conclusions on Soviet vulnerability summarized

summarized earlier, it is clear that impressive progress has already been made in agreeing to deny or to limit to the Soviet bloc the goods in which the bloc is especially vulnerable. Where gaps exist in the agreed COCOM controls, they are due principally to two factors. One of these is the fact that the principal producers of some strategic goods such as tin, rubber and iron ore, are not in COCOM and are unlikely to participate in coordinated controls in the foreseeable future. The other factor is that, thus far, the COCOM countries have agreed to extend the scope of their control activities to items which contribute to the general economic base of the Soviet bloc, but have concentrated instead on materials more directly related to its war-making potential. This latter factor explains COCOM's limited action to date on such items as construction and conveying equipment, transportation equipment, coal mining equipment and electric power-generating installations.

Any proposal to extend appreciably the existing system of agreed international controls will encounter

real

real resistance from the other participants in COCOM.1/ There are three prerequisites for any successful negotiations in this direction. First, we must avoid actions which appear to other countries as tantamount to economic warfare on the Soviet bloc; this would seriously hamper our negotiations for further cooperative action. Second, the financial means and administrative machinery must be at hand to deal with the problems of economic adjustment which other countries would face in any further diminution in East-West trade; these are discussed more fully below. Finally, if the list of controlled items is to be extended substantially to cover types of machinery and equipment, not now controlled, the COCOM countries must be persuaded that circumstances now justify efforts to restrain the rate at which the Soviet bloc is building its broad economic base, in addition to its war-equipping industries proper.

In addition

1/ During recent negotiations with the British and French and subsequently with the other COCOM countries, it was understood that there would be no further wholesale extension of export controls unless changed international conditions demanded a drastic shift in policy in this field. This understanding was last confirmed at a meeting of the Consultative Group on November 29, 1950, the day before the Communist Chinese aggression began in North Korea. The understanding has reference to the level of international controls and not to those of any individual country.

In addition to these measures taken through COCOM, steps have been taken in the North Atlantic Treaty Organization to control exports of scarce materials required for the defense programs of the North Atlantic Treaty nations. The main purpose of the action is to ensure that materials which are not at present prohibited or effectively controlled by other measures and which are clearly required for the NATO defense program are not exported eastward. These arrangements are still in an early stage of development and the extent to which they may make it unnecessary to expand other control measures cannot yet be determined.

Perhaps the most urgent and most difficult problem faced in the effort to make international export controls more effective is that presented by transshipments and irregular trade. Agreement has been reached after numerous technical discussions in COCOM on various methods to control transshipments, but the measures recommended are not yet fully in effect and may be found impracticable in some countries. The problem of Western Germany is particularly acute. Not only are border controls ineffective but the arbitrary character of the division between the Eastern and Western zones has, as indicated earlier, cut across natural production and distribution areas, accentuating

centuating the economic consequences of an embargo and hence stimulating evasion. Although the United States can take some measures unilaterally to limit irregular operations of this sort, really effective action depends upon effective internation cooperation.

In addition to this action by the countries represented in the COCOM and the NATO efforts are being made in cooperation with the British and French to obtain an expansion in the export controls exercised by Sweden and Switzerland. So far, these countries have undertaken to control shipments of the highest strategic importance and certain types of transit movements. Although these traditional neutrals will probably not agree to adopt controls as extensive as those imposed by other Western European nations, further expansion in the scope of their present controls may well be achieved and efforts to this end should be continued.

The question of expanding the membership of COCOM is under active consideration and it appears likely that Portugal, and perhaps Greece and Turkey, will be invited to participate. None of these countries exports significant amounts of strategic goods to the Soviet bloc, but there may be advantages in obtaining wider cooperation in controls over transshipments and irregular trade movements.

In addition

In addition to agreeing on export control lists and on methods for limiting transshipments, the COCOM countries have agreed that trade agreement commitments with the Soviet bloc should not in the future be allowed to frustrate the internationally-agreed security controls. These countries have also agreed to exchange information concerning their current trade negotiations with bloc countries, especially with respect to the goods most desired by the bloc; and the U.S. has urged an expansion of the COCOM staff for this purpose.

Consideration has been given to the possibility of sponsoring some form of thoroughgoing bloc-trading by the Western World in its trade relations with the East. It seems clear that an international trading corporation or similar organizational arrangements are not administratively feasible while East-West trade remains at or near its present levels. Nevertheless, there are clear advantages to be gained by fostering a much greater coordination of Western trade agreement negotiations, perhaps even to the point eventually of bulk purchases to meet total Western needs for a critical commodity such as Polish coal. In addition, the bargaining power of the participating countries should be strengthened by their opportunities to buy necessary goods outside the bloc and find substitute markets in the free world without substantial economic sacrifice.

(c) Other

(c) Other Countries. The trade of many non-Western European countries with the Soviet bloc is now under review. Although some instances of shipment of strategic items may be found, it is not expected that the magnitude of trade with the Soviet bloc will be significant enough to require extensive negotiations with these countries. In most of these cases the problem of strategic shipments can be solved better by U.S. or Western Europe purchasing and stockpile programs, than by the development of a parallel export control policy by the country concerned.

There have been in the past some instances of Latin American shipments to the Soviet bloc of goods of strategic importance; these have included export of petroleum to China and of copper and quartz crystal to the Soviet bloc. In all such cases, the United States has promptly received the cooperation of the countries concerned in terminating such trade. The subject of security export controls will be discussed further with the other American Republics at the forthcoming Foreign Ministers Conference in Washington. Such a discussion should cover not only the movement of specific strategic commodities from these countries to the Soviet bloc, but also the means of avoiding the use of Latin America as a transshipping point to the bloc.

(d) Legislative

(d) Legislative Policies. From the first, Congress has taken an extensive interest in the security export con trols exercised by other countries. This interest has crystallized in two statutory provisions, the so-called Cannon Amendment to the Supplemental Appropriations Act of 1950, and Section 117(d) of the Economic Cooperation Act of 1948. Both measures are intended to insure that the U.S. will not extend economic or financial aid to a country which by its own exports is frustrating our efforts to deny strategic goods to the Soviet bloc.

The use of the kind of pressure which bargains U.S. aid for cooperation must be judicious. For some countries, the costs of cutting off trade with the Soviet bloc bulk so large and the fear of retaliation is sufficiently well grounded that, if pushed to a decision, they may undertake commitments they will not enforce, or even refuse U.S. aid, rather than move further in the direction of overt economic warfare. Such action can thus imperil greater U.S. security objectives, and lead to the loss of potential allies in time of actual warfare.

3. Preclusive Operations

Since the Soviet bloc relies upon the outside world for significant quantities of certain basic materials and highly

highly fabricated products, there are possibilities of engaging in preclusive buying operations to cut off the supply of these products to the bloc. Operations of this wort can take several forms; the principal techniques and their applicability to the present situation are described below:

(a) Government-to-Government purchase agreements. One technique which the United States practiced to some extent in World War II, is to negotiate with governments, from whose territories the Soviet bloc obtains its supplies, contracts under which the supplying government would undertake to sell its total production to friendly countries and to deny any of its production to the Soviet bloc. Under present circumstances, however, this technique can only be applied to a limited degree. The Soviet bloc is vulnerable principally in two areas: in the supply of highly fabricated manufactured products, such as oil field equipment, electric power installations and machine tools, and in the supply of a limited number of raw materials, notably, coper, rubber, tin, cotton and wool. Government-to-government purchase agreements are impracticable for highly fabricated manufactured products, since these products are typically manufactured to specification and are not sold in bulk.

Government-

Government-to-government buying is much more practical for copper, rubber, tin, cotton and wool. However, these are all commodities which are short in the free world. Accordingly, if we are to maximize supplies to the free world procurement of these products must be done in such a way as to stimulate their production and maximize free world supplies. Most countries will cooperate fully with us. On the other hand, some important suppliers, while willing to provide increased quantities of these products to the United States and other friendly countries, would either refuse outright or exact exorbitant economic and political concessions before they would agree to a negative covenant, requiring them to deny these products to the Soviet bloc.

This last generalization is illustrated by the cases of rubber and tin; Ceylon and Indonesia, while willing to increase their shipments to the free world, strongly resist efforts to preclude all shipments to the Soviet bloc.

Another major limitation on government-to-government buying is that it induces undesirable demands on the part of supplying countries, which are less likely to arise in connection with normal procurement operations. The type of demand most likely to be made as a price for a

government-

government-to-government commitment not to sell to the Soviet bloc is the demand that the buying governments, in return, guarantee certain specific goods to the selling government; this type of bargaining makes difficult any attempt to ensure an equitable distribution of scarce commodities in the free world.

Accordingly, in the use of government-to-government buying operations the object should be to insure that the aim of preclusion does not interfere with the more pressing objective of maximizing free world supplies and thus result in net harm to the economic strength of the free world. Nevertheless, the possibility of preclusion must always be kept in mind as a desirable by-product of an arrangement aimed essentially at procurement.1/

(b) Other preclusive operations. In addition to the government-to-government procurement activities described above, there are two other distinct types of purchase operations. One of these is preclusive buying in friendly or neutral countries of the world; the other is covert purchases in the Soviet bloc itself.

Both these techniques differ greatly from normal procurement operations and must be conducted either discreetly and at times secretly. One prerequisite for a successful

1/ These same conclusions apply in general to intergovernmental allocation agreements.

successful operation of this kind is that the inflationary effect of such buying must not be so great as to endanger legitimate and essential procurement operations being conducted elsewhere in the world. Another is that the operation should seek to avoid stimulating increased production in the areas in which conducted.

These prerequisites narrow substantially the field where preclusive buying can be really effective. Nevertheless, among those raw materials the Soviet bloc must obtain through imports, a few offer possibilities for successful preclusive buying operations. In general, these are materials of small bulk but high unit value and are commodities of relatively few sources of supply. They are also commodities the denial of a comparatively small amount of which could impair the Soviet war potential. For example, diamond buyers located in each of the principal diamond markets and the major diamond producing areas, if liberally supplied with funds, could probably intercept a significant part of the industrial diamonds now reaching the Soviet bloc. The total inflationary effect on the economy of Western countries and on the cost of our own war effort resulting from such an operation would be negligible. Similarly with jeweled bearings: the scarcity of skilled

of skilled labor for their manufacture suggests the possibility of purchases in the areas supplying the Soviet, notably Switzerland.

Although preclusive buying is not a promising mechanism for denying strategic manufactured goods in general, it may be possible by purchase to intercept key items of machinery designed to Soviet specifications. Of even greater importance would be the preemption of the productive facilities of countries supplying these products to the Soviet bloc by placing forward orders in sufficient volume to utilize these facilities completely. In some cases, it might even be possible to purchase the facilities outright.

The opportunities at this time for successful undercover purchasing of goods in Soviet orbit areas are more difficult to appraise than those for preclusive buying outside the bloc. This subject should be considered further by the appropriate agencies of this Government.

4. Denying Funds to the Soviet Bloc

The Soviet bloc obtains in several ways the funds with which it buys the Western World's goods and finances propaganda, espionage and sabotage. The bloc has available certain liquid assets including bank deposits in Western countries, supplies of currency of Western countries, and gold. These resources can be augmented by net earnings which the bloc manages to achieve through its merchandise trade with the West, and by its current gold mining production.

Theoretically, the ability of the Soviet bloc to use any of these funds could be impaired. Attempts could be made to locate and place under control assets physically located in the West, including any assets earned in the future through the sale of goods; and obstacles could be placed in the way of their using their gold production and reserves.

(a) Blocking Soviet assets. There is nothing to prevent the United States from blocking the assets of the Soviet-bloc countries subject to our controls; we have already done so with respect to Communist China's assets. However, the sums involved are believed to be insignificant. Accordingly, the principal impact of the order would be on future earnings. Since the Soviet bloc then could not retain control of the funds it might earn by selling goods in the

in the United States, such imports would cease; this conclusion might be qualified to the extent that our blocking policy permitted the arrangement of specific barter deals mutually attractive to the United States and the Soviet bloc, but this is a minor qualification at best. Accordingly, the wisdom of instituting a blocking regulation depends largely upon a broader question, namely, the wisdom of terminating United States trade with the Soviet bloc.

Blocking and related action by the United States could also have the effect of denying to the Soviet bloc the privilege of using United States dollars in the settlement of their international transactions outside the United States. But the loss of this facility would be of little significance unless accompanied by parallel action from certain other key countries in the blocking of Soviet funds. For example as long as the Soviet bloc was in a position to offer Swiss francs to the world, they could finance their trade through Swiss francs almost as easily as through dollars. The prospect of obtaining the necessary degree of cooperation from Switzerland effectively to deny the Soviet bloc the privilege of using Swiss francs is remote. In addition, as a member of the so-called "transferable account system", the USSR is in a position to spend freely in the sterling area and in certain countries associated

with

with the area, earnings acquired by it in any country in the group. It might be possible to obtain the sterling area's agreement to drop the USSR from the transferable account system. But this latter measure, like unilateral U.S. action, would be of minimal significance in itself.

Effective international action limiting Soviet freedom in the use of the West's currencies would seem to depend upon a prior decision of the countries of the West that a drastic reduction or virtual cessation of trade with the Soviet bloc is desirable. Once this decision were made, however, more direct trade controls would be available to achieve the result. Effective financial measures, such as blocking, might then be applied, ancillary to these direct trade controls.

(b) Denying the Soviet bloc use of its gold. Gold is one of the Soviet bloc's most important potential means of commanding goods and services in the West. Conservative estimates put the gold reserves of the Soviet bloc and its satellites at about $3 billion; annual gold production is estimated at approximately $200 millions. Almost all of these reserves are probably in the USSR.

Gold has an acceptability even greater than that of dollars in many areas of the world, notably the Middle and Far East. Its source is difficult to trace. It can be used

used in cash transactions, avoiding official surveillance. It makes an ideal form of payment for underground activities.

The USSR is reported to be making a considerable effort to establish and maintain channels for the sale of gold in Western Europe. Satellite airlines are reported shipping gold clandestinely to Paris, Brussels and Amsterdam; French and British gold coins are reported being counterfeited in the bloc and shipped for use in outside areas.

A program for the effective suppression of Soviet bloc gold sales would necessarily involve two major lines of action. First the United States and other countries would have to cease buying gold from the Soviet bloc and from third countries which have had gold dealings with the Soviet bloc, and would have to cease selling gold destined for the bloc. Second, the free markets for gold which exist in many countries of the world and on which the Soviet bloc has heretofore primarily relied, would have to be curtailed or suppressed.

The problem of obtaining the cooperation of other countries in limiting official transactions in Soviet gold cannot be separated from the broad policy of such countries with respect to trade with the Soviet bloc. It is unlikely that real cooperation could be obtained in limiting

limiting these official gold transactions unless countries were prepared to take the full step of blocking Soviet assets and instituting a de facto embargo on trade with the Soviet world.

The United States could take unilateral action against Soviet gold. This could be done either by blocking all Soviet assets or by measures short of a complete blocking operation. If Soviet assets were blocked, we would treat the proceeds from any sale of Soviet gold to the United States the same as the proceeds of any other commodity. Importation of gold would be permitted only against payment in blocked dollars. This is the principle currently applied to Chinese gold. Any unilateral action, however, would be of limited effectiveness to the extent that other countries were prepared to continue to take Soviet gold and to sell essential supplies against the proceeds of the sale of gold.

The United States might attempt to obtain international cooperation by such drastic means as a declaration by the United States that we would buy no gold from any country unless it refuses to purchase Soviet gold. Such a step would be difficult to justify unless we were willing to go even further and refuse generally to trade with any country which traded with the Soviet. Furthermore, such action with respect to gold alone would probably be of very

very limited effectiveness in forcing other countries to curtail trade with the Soviet bloc and might well have important adverse implications with regard to the ability of the United States to use its own gold for the acquisition of essential imports.

The curtailment of Soviet gold sales in the private markets of the world, notably those of the Middle and Far East, would be difficult even with the cooperation of the governments of those areas. However, the possibility of obtaining some measure of cooperation in limiting such sales is somewhat greater than the prospect of cooperation in blocking Soviet funds in general. Some of these measures, such as those aimed at the suppression of free-gold transactions in general, could be publicly associated with the International Monetary Fund objectives of stabilizing exchange rates and of protecting monetary reserves; such an association would render these measures more palatable to other countries. Furthermore, transfer of the proceeds of gold sales into currencies other than those obtained in the countries in which the gold was sold could be restricted by appropriate exchange control measures. Possible action in respect to Soviet gold sales in private markets is worth further exploration.

5. Blacklisting

5. Blacklisting

The development of a blacklist is a means of enforcing other measures which have been put in effect to deny resources to the Soviet bloc. The purpose of the list depends on the nature of these other measures. For example, in enforcing export controls, a list has already been developed of domestic consignors and foreign consignees suspected of helping in the evasion of those controls; transactions involving such persons are prohibited orare subjected to particularly careful scrutiny. Such a list might also be developed to enforce the blocking of Soviet bloc funds; drafts drawn by such persons on dollar funds might be specially screened. Similarly a "black list" could be used to reinforce shipping restrictions, import restrictions or other measures which were a part of an economic defense program. In its extreme form, a consolidated list could be developed of persons or corporations, at home or abroad, who should be treated in all respects as enemy aliens.

The need for an elaborate blacklisting operation is much less important in the present emergency than it was during World War II. On the other hand, there is need for a continuous improvement in enforcement techniques. The information which the Commerce Department has already compiled in the enforcement of its export controls should be merged

merged with that developing out of the Treasury Department's fund control work and should be supplemented by the information available to ECA and the intelligence agencies. To obtain such a centralized body of information, work of two kinds is needed. A central blacklisting file should be developed and maintained by an operating agency and a central policy group should be formed to make decisions on the means of augumenting existing intelligence, the use to which such intelligence would be put, the policies to be followed in exchanging information with foreign governments, and the extent to which international blacklisting should be attempted. Such a committee would probably operate best under the interagency administrative structure proposed in the recommendations.

6. Control of Technology

In the long run, the chief economic advantage the Western world holds over the Soviet bloc is the advanced state of Western technology.1/ The West is far ahead of the Soviet bloc in the number of its trained scientists and production specialists. We are capable of using these

specialists

1/ This section does not deal with the enforcement of security classifications applicable to technical data classified by the United States Government. Nor does it deal with the problem of protecting data which might be used by the Soviet bloc for sabotage or actual warfare, such as information on U.S. plants. These are security problems directly related to the prevention of espionage which is outside the scope of this paper.

specialists both intensively and extensively to a much greater degree than the U.S.S.R.; we can mobilize greater skill to meet a particular problem and we can deal with a wider range of problems at any given time.

The enormous extent to which the Soviet bloc has so far relied upon Western technology is evident from the study of the Soviet bloc vulnerability, attached as Tab 1. An effective embargo on the export of technology to the Soviet bloc would have a measurable deterrent effect on its economic growth.

There are, however, obvious inherent difficulties involved in preventing scientific and technical information from reaching the bloc. Such information usually takes a form difficult to intercept--a concept in someone's mind, a formula, a model, a single blueprint, or a bundle of plans. Once these end-products are in possession of the Soviet bloc, unlike a ton of copper or barrel of oil, they can be used not once but repeatedly. In addition, since effective measures to prevent the leakage of scientific information to the Soviet bloc would necessarily involve limitations on interchange within the Western world, a major problem is to ensure that any measures adopted are more costly to the Soviet bloc in terms of technological advance than to the free nations of the world.

The

The advantages to the West of restricting the dissemination of information are greater for detailed technical information on specific production processes than for information which is in the nature of abstract science. The Soviet bloc's greatest deficiency is in the applied science and engineering fields rather than in abstract science. Accordingly, the measures taken so far have been directed primarily at restricting date in these applied fields.

Since 1949, the export of any technical data relating to the production or use of commodities has been under general license, although this standby control has only been implemented so far by inviting "exporters" of technology to seek an advisory opinion of the Department of Commerce on the advisability of exporting any such data. This voluntary program has been exceedingly useful in blocking the export to the Soviet bloc or other undesirable recipients of various types of unpublished technology. There is now under consideration a proposal to put screening of more important types of unpublished technology on a mandatory basis. The problem is to devise a technique whose principal effect is not simply to create a new impediment in the shipment of technical data to friendly countries and prospective allies. If a satisfactory program can be

can be devised, it would be desirable to attempt to persuade the other nations of the free world to adopt parallel controls. In any case, it is probably desirable to require individual licenses for the export of technical data now exported under general license in order to have legal sanctions against violators. To aid in such an embargo, the censorship of mail to Communist destinations or "drops" should be considered.

In addition to the actual and prospective licensing measures discussed above, the patenting abroad of inventions made in the United States is subject to license by the Patent Office. This licensing procedure is supplemented by the power of the part of the Patent Office to require that an invention on which an application is filed be kept secret for as long as the national interest requires. Similar laws also exist in a number of other industrialized countries. Here again, parallel enactments and policies would be useful in countries where such legislation does not exist.

While discussion so far has dealt with information which is not ordinarily published, there are also various possibilities in the suppression of information which might normally be published. It is hoped that a "Voluntary Program for the Protection of Technical Information", now being given wide publicity by the Department of Commerce,

will

will produce useful results through a judicious process of screening material prepared for publication and voluntarily submitted by editors and publishers.

For controls in this field to be meaningful, they must also extend to the movement of persons. The inspection of the plants of American companies and overseas subsidiaries by suspected foreign agents must be prevented. Moreover, travel abroad by American scientific and technical personnel likely to impart information to Soviet bloc agents should be carefully limited. The great risk to be avoided in this field, as in others relating to the exchange of technical and scientific information, is the risk of impeding the interchange among friendly countries to a degree which more than offsets the benefits of denying such information to the bloc.

7. Shipping Controls.

Controls in the shipping field serve to supplement export controls. Since the degree of effectiveness of shipping controls is dependent upon the degree of cooperation of the various maritime powers and upon the extent to which we are prepared to resort to such belligerent acts as blockade and contraband control, the potentialities are somewhat limited in the present "gray period".

Analysis

Analysis of registration of world merchant shipping indicates that the ownership of substantial tonnages is in the hands of those who could not be expected to cooperate voluntarily in drastic measures to deny shipping to the Soviet bloc. Assuming a list of prescribed commodities and prohibited destinations, and some form of coordinated export licensing by the participating countries, it should be feasible for each country to control the export of commodities from its own ports in the ships of all non-participating countries. The effectiveness of commodity controls enforced by shipping controls would vary according to the tonnage of countries participating. This would range from 79% of world tonnage, if commodity controls are implemented only by NATO countries, to approximately 95% if such controls are put into effect by all maritime countries outside the Soviet bloc.

The only actions that have been taken to date in the field of shipping are (1) the U.S. Maritime Administration Order forbidding U.S. flag vessels to call at Chinese ports or to make available their facilities for the transport of any cargoes to Communist Chinese destinations and (2) issuance of General Order 59 of the U.S. Maritime Administration which prohibits the charter, without specific license, of U.S. flag vessels to satellite operators. So long

long as ships of other flags continue to trade with China, however, the economic effect of the U.S. action can be largely nullified. A similar situation would result if the U.S. alone were to extend its embargo on shipping to the U.S.S.R. and its European satellites.

In view of the fact that participation by all non-Soviet countries in shipping and commodity controls cannot be expected, certain indirect controls on non-participating shipping could be applied which would have some value in curtailing shipment of strategic items from non-participating countries to the countries of the Soviet bloc. The most effective control of such shipping, short of naval blockade, would be application by the NATO and other participating governments of the World War II warrant system. Under this system ships' operators would undertake to operate in accordance with NATO objectives, or suffer the loss of bunkering and other shore facilities and of access to insurance markets and financial accommodations under jurisdiction of participating countries.

There is certain to be leakage. A small amount of uncontrolled tonnage can move substantial amounts of critical items of a concentrated nature and shipping interests would be offered tempting rewards to engage in bootleg trades. To be effective, the controls used must be enforced rigidly and the "blacklisting" of unreliable consignees

consignees made possible by a competent intelligence system. As a possible means of meeting this situation consideration should be given to the feasibility of setting up a cargo control along the lines of the British navicert system of World War II. That system, however, depended on the British naval blockade for enforcement. Whether other sanctions in lieu of naval blockade, such as denial of access to port facilities, insurance markets and financial accomodations would be adequate should be further explored.

8. Civil Aviation

United States policy regarding relations with the Soviet bloc is set forth in NSC 15/3. It covers two principal points. Any exchange of air rights with a member of the Soviet bloc should be on a reciprocal and short-term basis, only for these routes of the world on which some real advantage would derive to the West, and only on the basis of providing no more than minimum facilities to the satellite lines. Moreover, the U.S. objective should be to deny aircraft and aircraft parts, and maintenance facilities to the Soviet bloc to the maximum extent possible.

The U.S. has been using every opportunity to urge these positions on the other countries of the world, particularly those of Western Europe. Partial success has

has so far been achieved. The remaining steps short of complete success in urging the adoption of this policy are not of sufficient importance to justify any significant change in present tactics.

9. Positive Programs for Economic Strength

In concentrating upon the measures of denial and restraint on which this report has primarily focussed, it is easy to overlook the fact that the strongest weapons in our arsenal are the positive ones, the weapons which are directed primarily at adding to the strength of the free world, rather than primarily at weakening the Soviet bloc. These measures are particularly important because they are the surer means of strengthening our ties with other friendly countries and of convincing neutrals of the sincerity of our purpose in achieving peace and economic betterment.

In one way or another, the major facets of our present foreign economic policy are aimed at that objective. Point IV, the European Recovery Program, the Trade Agreements Program, and the various programs of grants and loans which the U.S. have fostered are all designed to build strength and cohesiveness in the free world.

The relevance of these programs to our foreign policy has been increased rather than lessened by the present emergency. By strengthening the economic and political fabric of the countries concerned, we can hope for more forthright

forthright stands by those countries in their relationship to the Soviet bloc. More specifically, our objective should be to ensure that U.S. economic aid programs are aimed at building up sources of supply in the Western world which decrease its dependence on the Soviet bloc and augment its supplies of strategic materials. Our Point IV program should be directed to building up the health and literacy of the peoples in those parts of the world where discontent and disaffection of the west is based in part on disease and ignorance. Our trade barriers program should be designed to a greater degree than heretofore to assure that the surpluses produced in some countries of the Western world will be marketed in other Western world areas from which trade barriers now bar them. These objectives call for the adjustment and extension of the "peaceful" aspects of our economic foreign policy, rather than their subordination and neglect.