

June 1982

A political strategy for economic relations.

TRADING WITH THE RUSSIANS

BY HENRY A. KISSINGER

IN THE WAKE of the Soviet invasion of Afghanistan and then of the suppression of liberty in Poland, two successive American Administrations vainly sought European support to restrict East-West trade. The resulting disagreements have left an unfortunate residue. In America, many believe that Europe subordinates long-term strategy and even security to short-term domestic politics; in Europe, many argue that America seeks to play for geopolitical stakes with European chips, risking the domestic cohesion of friendly countries without ourselves making equivalent sacrifices, as the lifting of the grain embargo suggests.

Pressures for East-West trade grew in the late 1960s and early 1970s—ironically, following the Soviet invasion of Czechoslovakia. It was argued in some quarters that despite occasional Soviet transgressions, increased trade would moderate Soviet behavior by making the U.S.S.R. increasingly dependent on the technology and grain of the industrial democracies. The American Administration then in office, in which I served, held from the first that trade should follow prior demonstrations of Soviet commitment to a more peaceful course and should be linked to Soviet international behavior. When the Soviet Union entered into serious negotiations on Berlin, SALT, mutual force reductions, and other matters, the United States gradually lifted restrictions, on a case-by-case basis and tied to specific projects. Our European allies followed, and far surpassed us in both the scale of their trade and credit and the ease with which they made it available.

Whatever the merit of the original theories, it is now clear that trade and credits can moderate Soviet conduct only if the Kremlin fears that intransigence will cost it the economic benefits it seeks. Yet that is what is most insistently rejected by the domestic interest groups in all countries that gain from East-West trade and by the Western governments that they influence. More and more, the governments of the industrial democracies act on the premise that the immediate gains in employment outweigh the political risks of strengthening a hostile and aggressive political sys-

tem. This is all the more shortsighted, since a mounting tide of radicalism and insecurity in the world—inevitably encouraged or abetted by a growth of Soviet power unrestrained by some agreed code of conduct—will sooner or later compound all economic difficulties as well.

There is little doubt that the negotiating balance in East-West trade has been reversed over the past decade. In every crisis, the West invents new excuses for declining to interrupt economic relations. Indeed, economic relations have done much more to induce Western restraint in the face of Soviet misconduct than to encourage Soviet restraint in international behavior.

The inequality in bargaining positions is almost entirely the result of the disunity of the democracies. The West is divided into competing units that are sometimes prevented by antitrust legislation from acting together, and often encouraged by governments that seek special benefits for their national industries by concessional credits. Loans have been offered or encouraged with little or no consideration of Soviet or East European ability to use or repay the funds. Default is avoided by "rescheduling," that is, lending more money to pay interest on what are in effect bad loans—protecting the lenders' balance sheet. In these circumstances it is easy for the Kremlin to play Western countries, and even industries, against each other, obtaining benefits not justified by the economic balance of advantage, much less by political circumstances.

The result has been an anomaly. By any objective analysis, the Soviet Union and its satellites are infinitely more dependent on East-West trade than their trading partners, the industrial democracies. The Soviet Union cannot feed itself without the non-Communist world's grain; it desperately needs Western technology. The inequality in benefits would long since have reduced trade to a trickle had not Western governments stepped in with direct or hidden credits, which now amount to nearly \$90 billion for the Communist world. In addition, many export prices are subsidized by governments directly or indirectly. The Communist countries thus are not only gaining a relative advantage in trade, but are also being financed by the nations against whom they are simultaneously

Henry A. Kissinger's latest book is *Years of Upheaval* (Little, Brown).

conducting a geopolitical offensive. Lenin's legendary dictum that capitalists would compete to sell the rope with which they would be hanged is coming true with a vengeance—for Lenin never guessed that Western governments would provide the money to buy the rope and subsidize the price to facilitate the purchase.

It is unthinkable that the West should continue to use its overwhelming share of the world's economic power so frivolously. We are on the defensive not because we lack resources but because we have failed to muster the will or the leadership to organize a coherent response. We have tried stop-and-go sanctions. They have failed because they affected various countries and different sectors of the economy unequally. They have turned into pinpricks dramatizing the West's weakness rather than its mastery of the situation.

The issue has further been clouded by the extreme manner in which the choices have been stated. Some opponents of East-West trade seem to hope that a total denial of economic benefits would force the collapse of the Soviet system. This theory is disproved by history. The Soviet system survived several decades of economic isolation and did not crumble. And it runs counter to the domestic pressures for seeking negotiations on a broad front. The last eighteen months show that the alliance will not sustain a policy of confrontation for its own sake, unrelieved by any hope of diplomatic progress.

But the opposite theory, of the automatic mellowing effect of trade, has also been demonstrated to be fallacious. Soviet behavior in recent years has given the lie to the argument that trade and credits by themselves will bring about a benign evolution of the Soviet system. Soviet-Cuban intervention in Angola, in Ethiopia, and in South Yemen; the invasion of Afghanistan; the suppression of Solidarity in Poland; and the use of toxic chemical and biological warfare in Afghanistan and Southeast Asia have all occurred in precisely the period of expanded East-West economic cooperation.

IF THE DEMOCRACIES continue to make available their hard-earned resources for an assault on the geopolitical balance, they must not be surprised at the inevitable decline in their security and prosperity. So long as the Soviet Union asks us for help in solving its economic problems by what amounts to Western aid, the industrial democracies have the right, and indeed the duty, to insist on restraint and stability in international conduct in return.

The industrial democracies are in a position to use their economic strength positively and creatively. There exists a sensible rationale for East-West trade which is neither unrestricted economic warfare nor uncontrolled Soviet access to Western trade, credit, and technology. If the democracies cannot concert unified political criteria, they should at least be able to

agree on letting market conditions determine the level of East-West trade and credit. If government-guaranteed credits and subsidies were to end, East-West trade would be reduced to the level of reciprocal economic benefit—or a small fraction of what now exists. If the Soviets want to go beyond this—if they seek further credits or subsidized prices—the West should insist on a *political quid pro quo*.

TO THIS END, the industrial democracies should jointly take the position that they are prepared over the long term to engage in economic cooperation, even on an augmented scale—but only if there is in return a comprehensive political understanding providing for settlement of the most serious outstanding problems, specific restraint in superpower conduct, and major steps toward arms reduction. The conditions should not be pious platitudes and should be spelled out in concrete detail. Nor should we delude ourselves: this cannot be achieved without a period, perhaps of some years, of disciplined coordination and restraint among the democracies to convince the Soviets that we are serious.

Specifically, the democracies should start by specifying their objectives in the political area to provide clear-cut criteria for progress. The most important message would be that the industrial democracies propose to speak with the East with one voice.

Second, there should be an urgent updating of the list of prohibited strategic exports and a determination to stick to it.

Third, the democracies should examine at the highest level on what political terms the Soviet Union and the nations in its system will enjoy governmentally supported access to Western trade and financial resources. Policies on export credits and financial guarantees should be reviewed periodically, based on a commitment to establish a common and noncompetitive policy among all members of the Organization for Economic Cooperation and Development.

Fourth, the democracies should agree to end progressively all government subsidies and guarantees for private bank credits to Eastern Europe. Given the nearly catastrophic performance of Communist economies, the marketplace would determine the proper flow of private credit, probably to restrict if not eliminate it. The same principle should apply to subsidized prices. Concurrently, there should be an agreement that rescheduling of existing debts will be heavily influenced by behavior of the countries concerned, especially in the field of foreign policy but including an end of martial law in Poland.

Fifth, there should be an urgent review of the grain export policy of the major grain-producing nations to determine how it can serve the strategy sketched here without undue hardship to the farmers in all our countries.

Finally, there must be a consensus among the de-

mocracies about what form of expanded economic cooperation we are prepared to undertake with the Communist world if this strategy of Western economic coordination leads to a broad East-West political understanding. The Versailles summit would seem to provide a useful forum to begin such a process.

What these measures suggest is in the long-term interest of *both* East and West. It discourages Soviet adventurism grounded in the belief that the West is too weak, too selfish, or too divided to defend its interests with its best weapons. It thus forces the Soviets to make real choices at a time when their succession struggle will inevitably involve an internal debate over priorities and a possible desire to ease outside pressures. If it leads to the sort of political settlement that precludes later reversal, trade and credit can safely be expanded. If such a settlement is unattainable, continuing our present trade and credit practices will in effect accelerate our crisis. In that case, future generations will not be able to explain what possessed their predecessors to engineer their own decline by lassitude, greed, or lack of leadership.

If the industrial democracies wish to subsidize their

exports by easy credit or pricing policies, the creative area for such efforts is not in the Communist countries but in the third world—especially among its moderate, market-oriented governments.

The Soviet Union is a system with no legitimate method of succession, a stagnant economy, a demographic challenge in the growth of its non-Russian population, and ideological claims whose bankruptcy is being proven by the working class of Poland in the streets of Polish cities. The joke of recent history is that the only spontaneous revolutions in industrialized countries have been against Communist governments. A system that feels so threatened by even the most elementary liberties, a system so structurally unsound and so patently contrary to the human spirit, can prevail only by our inadequacies, not by its own efforts. The West, which over centuries has shaped a great civilization—of culture, philosophy, inventiveness, and well-being—must not now abdicate control of its own destiny to short-term calculations. Democracy requires above all clarity of thought, fortitude, and leaders willing to present the facts to their people and prepared to deal with complexity.

For the Social Democrats, winning isn't everything.

IS SCHMIDT'S PARTY OVER?

BY JOSEF JOFFE

Hamburg

THE SOCIAL DEMOCRATS are Germany's oldest party. They survived Bismarck, the Kaiser, and Hitler. During the war, the party withstood violence and exile. Resurrected amid the ruins, the Social Democratic Party found itself condemned to seventeen years on the opposition benches. In the end it triumphed, wresting the Bonn government from its conservative rival.

But that was thirteen years ago. Today the SPD is in danger. The threat it faces stems not from the defamation and persecution of decades past but, paradoxically, from the very possession of power. The SPD has ruled West Germany (in tandem with the liberal Free Democrats) for half a generation, and Helmut Schmidt's tenure has now overlapped with that of four American Presidents, three presidents of France, and

three British prime ministers. The Chancellor has managed to ride out two oil shocks and the worst worldwide recession since the Great Crash. Yet if there were an election next Sunday, the SPD would get only one-third of the total vote, while the Conservatives (the CDU/CSU) would walk away with a landslide—and over 50 percent of the ballots cast.

The paper defeat in the opinion polls is mirrored in the real disaster of recent *Land* (state) elections. Last year the SPD lost Berlin, its most solid electoral stronghold for generations. (Even at the height of Nazi power, Hitler never felt comfortable in "red" Berlin.) In the *Land* elections in Lower Saxony, the SPD was overwhelmed by the Conservatives, 37 to 51 percent. In the regional votes to come, Hamburg in June and Hesse in September, the Social Democrats will be lucky if they lose only one of the two states. If they are defeated in the national contest of 1984, the Social Democrats will have nowhere to go to lick their

Josef Joffe is a senior editor of the West German weekly *Die Zeit*.