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What is "Normal" East-West Trade?

by Rolf Hasse, Cologne*

The reduction of grain shipments and the export ban for computers imposed by the US Administration in response to the Soviet occupation of Afghanistan was supplemented, late in February 1980, by prohibition of deliveries of phosphates to the Soviet Union. President Carter has not yet urged the western industrialized states to participate in economic sanctions against the USSR, but a comprehensive embargo is still under discussion. In this connection it is not only the expediency of an embargo against the Soviet Union which is at issue, but the question how the East-West trade is to be conducted and what is, in the long run, to be regarded as normal in this field.

Afghanistan and embargo have become cue words in the international political debate. The US Administration responded to the occupation of Afghanistan by imposing a partial embargo on wheat shipments to the Soviet Union and later extended this to include phosphates. It is, furthermore, considering the suspension of export licences for a number of articles which are urgently needed by the Soviet Union – oil and gas drilling equipment, computers and spares for computers, machine tools, installations for steelworks, chemical plants and automobile construction. The US Administration is also striving to obtain international cooperation and support. The longshoremen in North American ports are threatening to boycott Soviet ships and cargoes from and for the Soviet Union. Besides, the US Administration has announced that no American sportsmen will travel to Moscow for the Olympic Games. This also would be an embargo and not, as it is now usually termed, a boycott¹.

The terms boycott and embargo are still being treated as synonymous – even by jurists – although a boycott always entails a *private* and an embargo a *state* decision and implementation, so that their political implications and organizational conditions differ substantially. Of much greater importance are the great uncertainties about the conditions and success prospects of economic sanctions, and these are aggravated in the case of the East-West trade by – intentional or unintentional – supersedence of the foundations of political action. Thought must therefore

be given not only to the basic facts of an embargo but to those distinguishing the East-West trade. At issue is not the expediency of an embargo against the Soviet Union alone but, at heart, the question how the East-West trade is to be conducted and what is in the long run to be regarded as "normal" in this field.

The embargo is a very old political instrument and has been used on many occasions². Correspondingly old and long is the list of failures in its application. Its legality as an instrument of foreign policy has remained in dispute right into the present century. It was only through the evolvement of the idea of collective security that after World War I the embargo was recognized as an instrument for the peaceful settlement of conflicts and even embodied in the articles of the League of Nations (Art. 16) and the United Nations Charter (Art. 41). These provided the legal basis, for instance, for an embargo against Italy in 1935/36 and the embargo against Rhodesia³ in 1965; the UN Security Council revoked the latter on December 21, 1979 by Res. 460 (1979), with the Soviet Union and Czechoslovakia abstaining.

¹ A decision by the US National Olympic Committee not to go to Moscow is formally a boycott but if the American Government subjects it to pressure, one speaks of a "moral embargo". If the Government withdraws the passports from athletes so as to enforce its decision against opposition, all the prerequisites of an embargo exist.

² Cf., for details, Rolf Hasse: Theorie und Politik des Embargos (Embargo theory and policy), Untersuchungen des Instituts für Wirtschaftspolitik an der Universität zu Köln, Vol. 25, Cologne 1973 (Expert study on behalf of the Federal Ministry for Economic Affairs).

³ Cf. Rolf Hasse: Wirtschaftliche Sanktionen als Mittel der Außenpolitik. Das Rhodesien-Embargo (Economic sanctions as a means of foreign policy. The Rhodesia embargo), Volkswirtschaftliche Schriften, No. 263, Berlin 1977 (Expert study on behalf of the Federal Ministry for Economic Affairs).

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Besides, since 1945 a large number of bilateral and collective embargoes have been imposed: the UN General Assembly embargo recommendations against South Africa and Portugal (until 1974), the East-West embargo of the OEEC/OECD states of 1947, the embargo of the CMEA states against Yugoslavia (1948-56 and 1958), the oil embargo of the Soviet Union against Israel (1956), the sea blockade and embargo against Cuba (1962), the embargo attempts by Arab oil producing states (1967 and 1973).

The large number of embargo demands and resolutions and the assiduity shown by politicians in pressing for them contrasts sharply with their results and costs. It may therefore be asked which objectives and criteria characterize economic precepts and injunctions as an embargo and why they have failed.

The embargo is an instrument of foreign policy. In contradistinction from the (private-law) boycott, it always involves *state* initiative and implementation. It is an *aggressive* form of international economic policy. A state or group of states is to be *discriminated against* and *harmed* through total or selective prohibitions in the sphere of trade, capital movements and/or transport. Economic injury is inflicted in order to exercise influence on the *modes of political conduct* of the embargoed adversary. The initiators of an embargo must be ready to accept *economic disadvantages* to themselves.

Prospects of Success

The political, legal, economic and organizational prerequisites of a successful embargo have always been and are being underestimated, with the result that while all embargoes have caused economic harm, they invariably failed to achieve their proper political objective. The main reasons for their failure were the following faults:

- Overestimation of the economic dependence of the embargoed country on the outside world and underestimation of its adaptability and ability to circumvent the embargo,
- Delays in the application of the embargo,
- Gaps in the embargo lists,
- Failure to apply the embargo universally,
- Administrative deficiencies in the supervision of the embargo,
- Lack of economic and, above all, political solidarity between the initiators of the embargo.

One can form an opinion on the international reactions to the US embargo under these headings and make a rough estimate of the chances of success of isolated and even collective economic sanctions without possessing a profound knowledge of what is an embargo. It is not only an ineffective instrument but an expensive one. The decline of trade is not the only price to pay. More important are the consequential costs in the form of negative political, legal and economic repercussions. Any political alliance suffers a loss of cohesion and credibility if economic sanctions are adopted but not acted upon.

An embargo invalidates the security of international law because treaties and long-term trade relations are interrupted. Such interference with private property and ownership rights creates insecurity and exercises a lasting effect on the degree of international division of labour. The harm done to the economic order by this political interventionism when the international economic intercourse is in peacetime used as the vehicle of a misconceived foreign policy must not be underrated.

East-West Trade a Special Problem

These conclusions apply primarily to the economic relations between national economies with a free-market organization but in principle also to foreign trade with centrally controlled economies like that of the Soviet Union. This shows clearly that a *general* embargo would be injudicious, and this view carries the more weight the more specifically general economic sanctions are concentrated exclusively on one CMEA country, the Soviet Union.

These arguments are as a matter of fact presented by all those who advocate the continuation of the East-West trade as conducted hitherto and in support of their position refer to the threat to sales and employment, the absence of credit risks from business with the eastern bloc and similar idioms in their economic vocabulary. Consciously or not, they yield to a strategic fallacy: It is *not* to be inferred from the expected failure of an embargo that the present form of economic relations is "normal" and free from problems. Those who advocate continuation of the East-West trade as conducted hitherto dodge the issue whether this trade constitutes an economic relationship between economic and political *partners* or between long-term political antagonists. A decision must be made here on a matter of principle. It is crucial for the long-term economic relations.

East-West Trade Since 1917

- 1917-1921: Allied blockade and embargo against the Soviet Union.
- After 1921, until ca. 1930: Considerable activities by western firms in the Soviet Union.
- 1931-1933: US and British trade prohibitions against the Soviet Union, partly in the nature of embargoes.
- 1940-1945: Collaboration for the common war aim.

Evolution of the Embargo against the Eastern Bloc

- Late 1947: US embargo against the Soviet Union.
- First half of 1948: Embargo by all OEEC states against the Soviet Union and all later CMEA states.
- January 1, 1950: The Consultative Group (CG) and the Coordinating Committee (COCOM) start work in Paris as coordinating centre for the embargo against eastern bloc countries.

Gradual Removal of the Embargo

- 1954-1957: The embargo lists are cut down on British pressure against US opposition. The US embargo list remains larger.
- 1956/1957: The USA relaxes the embargo unilaterally by supplying Poland after the riots there with wheat and later also with goods which were on the embargo list. In 1957 the USA even offered export credits. To warrant such exports, Poland was avouched to be no longer dominated by a foreign power. J.F. Kennedy played an important role in the promotion of these initiatives.
- 1958: Second major shortening of embargo list, again on British initiative and going beyond the US ideas.
- 1959-1965: Embargo on sale of pipes.

Removal of Eastern Bloc Embargo by the USA from 1958 Onwards

- From 1958: Gradual reduction of the US embargo list and adjustment to those of the other OECD states.
- 1963/1964: Large US wheat deliveries to the Soviet Union, Poland and Hungary.
- 1964: The USA concedes most-favoured-nation treatment to Romania.
- 1965: The Miller Report recommends greater flexibility in US trade with the eastern bloc in order to support the polycentric forces in the CMEA.
- 1972: Trade agreement USA-USSR. The USA grants most-favoured-nation treatment.
- January 3, 1975: The 1974 US Trade Act is passed with the Jackson-Vanik Amendment (Linkage between emigration of Jews and most-favoured-nation treatment). The Soviet Union regards this as interference with its internal affairs and terminates the trade agreement of 1972.

The actual situation must not lead merely to a quarrel about the pros and cons of economic sanctions as a short-term reaction to the military expansion of the Soviet Union. This would be a waste of energy. What is needed is a re-examination of the political foundations or, in other words, an adaptation of the forms of the economic relations to the political reality. It seems to me that those who object to this train of thought close their eyes to an existing gulf. For many observers acknowledgement of the existence of this discrepancy would be tantamount to a confession that their judgement was mistaken.

Ideological Battlefield

In this context it is helpful to follow the course of the political element of the economic relations with the Soviet Union since 1917 and more especially after World War II (see Inset). This chronology warrants several conclusions of wider significance than a mere record of the system-specific features of the East-West trade:

- In the Soviet view the trade with the West has always been a special ideological battleground, and the democratic states have also usually pursued positive or negative political objectives on it.
- Major differences often arose between the industrialized western states during the embargo against eastern bloc countries. A relaxation was advocated by Great Britain in particular because promises of big Soviet orders prompted British hopes for an improvement of its balance of payments. They found expression in the formula of "Change by Trade".
- The embargoes against the Soviet Union have never caused any lasting changes in its political attitudes.
- The Soviet Union has never abandoned or renounced its ideological long-term objectives. The concept of peaceful coexistence has been defined invariably by all Soviet leaders as an intermediate phase in the revolutionary struggle. The attitude of the Soviet Union in the international conflicts since 1945 has never admitted of any other conclusion⁴.
- Wheat always played a great role on the US side – in the past however as a means of relaxing the embargo. The measures of January 1980 are indeed a

⁴ Cf. Reinhold Biskup: Sowjetpolitik und Entwicklungsländer. Ideologie und Strategie in der sowjetischen Politik gegenüber Entwicklungsländern (Soviet policy and developing countries. Ideology and strategy in the Soviet policy towards developing countries), Freiburg-Berne 1970, espec. pp. 55-66. Of special interest are the remarks on Soviet policy towards Afghanistan, pp. 21-31.

special case in the history of the embargo. Food embargoes are as a matter of fact among the most effective weapons but were mostly ruled out on humanitarian grounds⁵. The decision was presumably made easier for the USA by the fact that it did not involve a total embargo but "only" fodder grains and that the deliveries to other CMEA states were not suspended.

Taking an overall view of the political and military situation of the USA, the wheat embargo looks like an intermezzo, almost a makeshift solution, adopted because there was nothing else at hand for "showing the flag" and causing disruption. This embargo on fodder grains may have considerable delayed effects on sectors of the Soviet economy which are notorious for their chronic ailments and will affect the term of trade notably in the short term. During phases of greater military and political strength the US Administration has always refused to impose embargoes on food or feeding stuffs.

The complaints of the Soviet Union call to mind the arguments which it used itself in another instance: When Australia supplied a total of about 330,000 tons of wheat to Rhodesia between 1965 and 1970, thereby making good the harvest shortfalls in that country, it quoted the escape clause of the embargo resolution of the UN Security Council against Rhodesia – No. 253 (1968) – which permitted trade for humanitarian, scientific and medical reasons. At that time the Soviet Union accused Australia of deliberately violating the embargo!

Re-orientation of the Eastern Bloc Trade

All this leads to the conclusion that the Soviet Union is not a political partner but a determined antagonist. The western states, even if they should fundamentally agree with this diagnosis of the relationship, are divided all the more widely on the strategy to be pursued in their eastern bloc trade. Not only was the embargo against eastern bloc countries almost completely abolished in the sixties but the objective was reversed by the adoption of the "Change by Trade" formula. What other explanation could be offered for the decisive changes which signified the transition from removal of embargoes to a policy of intensive development:

Authorization for the erection of complete installations for the production of strategic goods (plants for building trucks), and

granting of extensive long-term credits on in part very generous terms.

Mention must also be made of the attitude of private eastern bloc traders who complain loudly but accept business (e. g. barter transactions) on terms which they reject unequivocally in other countries. So it seems that the eastern bloc trade is in every respect in a class of its own.

It is however certain that, just as it has been impossible to achieve political objectives by an embargo, in dealing with a political adversary there is no point in attempting to obtain the reverse political objective by economic means and to bring about through trade and intensified economic development a political change. The east bloc trade policy of the last ten years has some resemblance to a facet of the mercantilistic form of embargo practised by France against England during the Continental System (1798-1814) when imports of English goods through Continental ports were prohibited but the French Government at the same time subsidized exports to England!

Return to "Normality"

The gap which has opened in the eastern bloc trade between political and economic assessments and facts creates risks in the long term and must be closed. This does not mean that unguarded trade prohibitions should be imposed in the short term or a comprehensive embargo be attempted. A realistic eastern bloc trade system for the long term requires first of all two changes:

There must be a move back in the eastern bloc trade and especially in trade with the Soviet Union towards the principle of cash payment. The competition by means of offers of favourable terms for lending to eastern bloc countries which has been encouraged by public authorities should in any case be brought to an end.

The question which products and production plants are to be classified as strategic requires reconsideration. These must be subjected to effective specific rules in trade with the East. Authorizations for the erection of plants for building trucks in the Soviet Union, for instance, would no longer be issued generally and even less on the terms on which they have been given in the past.

On any fair and reasonable judgement of the existing possibilities these rules are proof against the objection that they would not do justice to the different situations in the individual CMEA states.

⁵ Cf. Rolf H a s s e : Theorie und Politik des Embargos, op. cit., pp. 402-411.