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Article — Digitized Version

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Intereconomics

Suggested Citation: Bolz, Klaus (1982) : American sanctions: Merely a signal, Intereconomics, ISSN 0020-5346, Verlag Weltarchiv, Hamburg, Vol. 17, Iss. 1, pp. 1-2,
<https://doi.org/10.1007/BF02925913>

This Version is available at:

<https://hdl.handle.net/10419/139778>

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American Sanctions: Merely a Signal

The reasons why the trade embargoes imposed at various times in various parts of the world have, in the final analysis, been without effect, have been demonstrated repeatedly. It can therefore be assumed that the most important conditions which must be fulfilled for an embargo to function smoothly are now known. But in spite of this, economists today are still unable, even in the case of a fully thought-out embargo-plan, to prove in advance using rational arguments that this embargo, like all its predecessors, cannot be effective. Although the prerequisites to be met for an embargo to work are known, there is inadequate detailed knowledge of the actual prevailing conditions. In particular, there is a lack of exact information on the real interests of all the countries in the international embargo alliance and on changes in these interests in the course of the embargo. And even if the prevailing conditions are, in substance, known, little can be said *ex ante* about their individual effects and even less about their joint ones. Thus, embargoes continue to be imposed on individual countries or groups of countries, the initiators of which believe that they will work and achieve their goal of forcing other countries to behave politically in a certain manner.

In the case of the embargo initiative against the USSR and Poland, however, it was obvious from the beginning that the desired effect could not be achieved. It was obvious, not because the above-mentioned detailed information on the necessary conditions for the embargo was available, but because in this case not even the minimal prerequisites for the functioning of an embargo were given. Thus, the American government failed to set up a broad international embargo alliance before imposing the embargo – indeed, probably no attempt was made to do so – so that the Soviet Union is able to procure the blocked American deliveries, which were in any case not very substantial, for the construction of the gas pipeline without any great difficulty – once a few technical problems connected with the American ban on the use of patents have been solved – by means of purchases in other countries. Furthermore, the inclusion of the strategically important grain exports in the embargo was never seriously contemplated, whether for domestic political reasons (farming interests!) or due to the conviction that the American government could hardly count on the solidarity of the other grain exporting countries. If the promise made to the Soviet Union in 1981 that no further boycotts on the export of grains would be imposed is the real reason, then it must be doubted whether this promise is compatible with the basic principles of American trade policy with regard to Eastern Europe.

In consideration of these facts it can be assumed that even the Reagan administration itself can scarcely believe in the functioning of this embargo imposed by the US alone. Even if the US President has just stated publicly once again that his sanctions are having an effect, in the final analysis the embargo is no more than a signal from the American government to the Soviet Union. The sanctions are designed to show that the Americans are prepared to take much wider reaching steps if Moscow does not continue to show restraint regarding the Polish crisis.

America can easily impose an embargo on the Soviet Union in the technical field since the export of manufactures represents only a small proportion of total American exports to the Soviet Union. These small quantities can therefore hardly have any effect on the American economy; but the proportion of these products in total Soviet imports from the West is also small. Western Europe (OECD), on the other hand, is the source of well over 70 % of the Soviet imports of manufactured goods from the West. The importance of Western Europe for the USSR's trade with the West is emphasised by its high share in the USSR's exports to the West (c. 85 %). These rough figures are enough to show that a trade boycott of the USSR is unthinkable without the participation of Western Europe, i.e. that an embargo cannot be imposed behind Europe's back, so to speak. No matter how limited the importance of trade with the USSR for the total trade of individual Western European countries, the fact remains that the consequences of a broad embargo would be very much graver for the Western European countries than for America. In view of this, America can scarcely expect Europe to undertake unconditionally the sanctions imposed by America, especially as America itself has not included grain exports in the embargo, i.e. has excluded that area which would result in costs for American agriculture.

The comparison of the import and export figures for USA-USSR trade and Western Europe-USSR trade provides further evidence for the argument that Reagan really wanted no more with his embargo than to set a signal or, to put it another way, that the USA does not – or at least not yet – want to encroach upon the advantages which the Western countries gain from trade with the USSR, especially as it has also recognized the fact that the American grain trade with the Soviet Union is not entirely independent of a flourishing trade between Western Europe and the USSR. In recent years the Soviet Union has financed a certain proportion of its imports from Western Europe by means of credits – mostly granted by European banks – although these imports could, as a rule, have been paid for out of export revenues. These credits gave the Soviet Union enough scope to use not only the export profits earned in Western Europe but, in addition, a further part of the export revenue from its trade with Western Europe, in other parts of the world – e.g. the USA – to finance part of its balance of trade deficits there. This is one explanation for the fact that Soviet borrowings from American banks have remained relatively low despite the balance of trade deficits which have been recorded for years. Compensation arrangements did not have to be made in connection with the grain purchases in the USA but they did have to be made in the case of the credit-financed plant purchases in Western Europe.

The gas pipeline deal between several Western European countries and the Soviet Union should be mentioned again here. Influential circles in America fear that West Germany, France, Italy and other countries are exposing themselves to political blackmail by the Soviet Union. Now that American companies are not, after all, to be allowed to fulfill the orders for the delivery of compressor stations and pipelaying equipment which they had meanwhile accepted, the American government has stepped up pressure on its European partners to back down from the deal, regardless of contracts for credits, construction and gas purchases which have already been signed. The Western European governments do not, however, seem prepared to question the gas deal. France has even just signed its contract with the Soviet Union while the negotiations among the Western states on export controls are still taking place. The others will soon follow suit. According to American calculations the Soviet Union will one day earn US \$ 7-10 billion per annum in foreign exchange from the supply of gas to Western Europe. There are those in Europe who argue, however, that the USSR will need this money last but not least to pay for its substantial grain purchases in the United States!

The considerations roughly outlined above should be enough to make clear that the spectacle of international disagreement on the question of East-West economic relations must be put an end to as quickly as possible. The formulation of a common strategy determined by the political interests of all concerned should urgently be aimed for. For the sake of stability in East-West economic relations in the decade ahead, politics must no longer be confined to signals and threatening postures from individual Western countries.

Klaus Bolz