Adler-Karlsson, Gunnar; Western Economic warfare: A Case Study in Foreign Economic Policy Almqvist & Wiksell, Stockholm "Stockholm Economic Studies"

Part I. Introduction

Chapter One. Introduction, Summary and Implications

I. THE PROBLEM

The subject of this book is the Western economic warfare against the communist nations in the form of an embargo policy on so-called "strategic" goods. The history of this policy, which originated in the United States in 1947 and was reluctantly adopted by the West European governments, will be described. An attempt will also be made to analyse both the political forces which created the policy, and the economic effects which it may have had on East-West trade and on the balance of power between the communist bloc and its Western adversaries.

The essence of the policy is that the Western nations have created a joint institutional framework by which they are trying to stop or to control the export of "strategic" goods to the communist nations. The central key to an understanding of the policy is to understand the meaning of the concept of a "strategic" commodity. The whole policy has been officially motivated by the necessity to stop allegedly "strategic" goods from being exported to the communist nations. It has been implemented in accordance with a great variety of lists of "strategic" goods. Goods which have been put on the lists have always been called "strategic"; when they have been taken off the lists they have become "non-strategic".

What is a "strategic" good? This has been the central question of the Western policy, a question which has caused many internal Western quarrels. All parties concerned agree, for instance, that weapons, ammunitions and most atomic energy materials are strategic. But what about steel? The Americans tended to regard steel as strategic, remembering that the export of American steel scrap to Japan had contributed to the Japanese attack on Pearl Harbor. The British considered steel to be a necessary ingredient also for the building up of a peaceful industry, and tended to say that a general embargo on all steel products was not justified from a strategic point of view. What about rubber? The Americans, who had to import rubber, who spent much money on strategic stockpiling of natural rubber, and who for strategic considerations paid subventions for the production of synthetic rubber, quite naturally considered rubber to be a strategic commodity. The British, who had a desperately bad balance-of-payments situation in the beginning of the embargo policy and whose export of rubber to the communist countries from the sterling area significantly contributed to the easing of the dollar shortage, tended to say that rubber was a non-strategic material. Besides, they claimed, the export of rubber paid for the import of grain from the Soviet Union, which was necessary for the workers in the British armament industries.

The fact is that no simple definition of a "strategic" commodity exists. Definitions which are to be found in the literature, such as "goods that were directly related to military strength",[1] or goods, "the delivery of which would bring the Eastern parties in a strategically unfavourable position",[2] are tautological.

The complexity of the concept of a strategic good is well-illustrated by an official American document which discusses the factors that enter into the decision to declare a commodity as strategic. These factors include, for instance:

a) The "strategic rating" of each commodity, i.e., how important it is to Soviet war potential;

b) Known deficiencies in the war economy of the Soviet bloc;

c) Which countries produce and trade particular commodities and to what extent;

d) The effectiveness of existing controls over commodities in particular countries;

e) The effect of export restrictions in particular countries in terms of ability to obtain essential imports, ability to find market for exports, and other economic and political factors involved.[3]

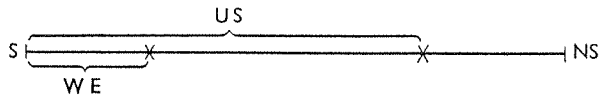

Fig. 1–1. Desired definition of "strategic" goods in Western Europe and the United States.

It is evident that these criteria are wide enough to create conflicts over definitions when different Western nations had different interests in a particular commodity. A sharp or precise definition has never been presented in the embargo literature. Leon Herman has spoken about a "strategic good" as "an illusionary concept" and Osgood has complained about its "ambiguity, if not outright absurdity".[4]

These judgements are equally valid for a subsidiary concept which has also been much used by the American Administration in defending its handling of the embargo policy, namely the concept of "net strategic advantage". On the assumption that trade is mutually beneficial to the two trading sides, this doctrine teaches that the embargo lists should include all goods which, when traded, give a greater advantage to the communist side than to the Western side, and exclude all commodities which in trade give a "net strategic advantage" to the Western side.[5] The criteria for the necessary judgements involved are, however, not less unclear than those used to define a "strategic" commodity. Both these concepts have mainly been used by the responsible agents of the American Administration in defending different actions against the criticism of Congress. Both concepts have an aura of preciseness and rationality, which has tended to make an impression on some politicians. But none of the concepts has a preciseness which can be used in concrete decision-making. The great difficulty of the embargo cooperation in the West has been that no such operationally usable definition has been found, by which the borderline could be drawn among the many goods which lie inbetween those which all participants agreed were to be considered as strategic, or as non-strategic.

One of the great difficulties in this search for a definition has been that any delimitation of the "strategic" goods has been strongly influenced by subjective factors. This arbitrariness has been clearly demonstrated in the actual policy. A definition of the concept "strategic" does not express anything but the opinon of a speaker about what he thinks should be embargoed, or the joint decision of a policy-making body of what they agree should be prevented from reaching the other side. Thus, what has been included in the embargo lists are *eo ipso* "strategic" commodities for those who have drawn up the lists. When an American Congressman defines a plastic comb as a strategic commodity, he expressed nothing about the comb, but only his personal opinion that the comb should not be exported to the communists.

In this way one of the essential features in the formulation of the Western embargo policy has been reduced to the search for a mutually acceptable compromise about what is, and what is not, a "strategic" commodity. The abstract definitions of "strategic" have been left aside, and in practice the embargo policy has relied upon enumerative definitions, which have been constantly changed by allied consent. The development of the constantly changing policy can be abstracted into a movement along an S–NS axis, as shown in figure 1–1. Assume that along this axis we can group all commodities from S to NS in accordance with their diminishing strategic importance as conventionally understood. Those commodities which all agree are of a high strategic importance, like atom bombs, are to be found close to the S-extreme of the axis, and those which all agree are of a low strategic importance, like chewing gum, at the NS, the Non-Strategic, end of the axis.

In the negotiations about the content of the joint Western embargo lists, the American side has taken a position much closer to the NS-end than the West Europeans throughout the policy, thus defining a wider range of goods as "strategic". The outcome of these negotiations can, as will be described below, be understood as a movement of the enumerative definition from close to S towards NS during the period 1947 to 1953, and back again towards S from 1954 until today. The differentiation of the policy will also require different S-NS axes for different areas.

As will be shown, the definitions of "strategic" commodities, which have been desired by different subjects in the policy, have at different times been influenced by several factors. Among these, the aims of the embargo policy have been a main one. Some, especially in the United States, have wanted to conduct an outright economic warfare against the Soviet Union. Others, especially in Western Europe, have only wanted to weaken the

military sector, as conventionally understood, of the Soviet economy. Those who have adhered to the first aim have also tended to adopt definitions of strategic goods which lie close to the NS-end of our axis, while the others, in their desired definitions, have come much closer to the S-end. This correlation has been so strong that the movements on the S-NS axis can equally well be understood as an outcome of the fight between these two aims. The jointly adopted Western position on the axis can be understood as an expression for the strength of the arguments and the bargaining power amassed behind them at different periods of time.

These movements along the S-NS axis, their causes and effects, are the subject of this book. The title of it, *Western Economic Warfare,* refers to the fact that at some periods the positions taken have come so close to the NS-end of our axis that the term "economic warfare" is clearly justified. The term has also been used in this context not only by East Europeans but also by American Congressmen and Western politicians and academic authors,[6] even if the officially presented position always has been that the embargo policy has not implied any "economic warfare". This official position is, however, part of the extensive double-talk surrounding the whole policy, which has lead one Western author to the judgement that "in the whole history of the cold war, probably no issue in the large complex of East–West relations has been condemned to greater obscurity than trade relations between the two giant blocs".[7]

Before summarizing the embargo policy along the S–NS axis, let us define some limitations on the subject treated, as well as some subjects which are not treated in full in this book.

II. THREE LIMITATIONS ON THE SUBJECT

1. Civilian goods

First, the embargo policy is a combination of export restrictions on both military and non-military commodities. To make a firm distinction between these two groups is impossible. The description below will, however, follow a distinction which has been made by the American policy makers, and which excludes from treatment the purely military items of arms, ammunition and implements of war. No attempt is made to discuss the effects of the embargo on the purely military sectors of the economy, which is far outside of the author's competence. What is treated is thus the embargo on what conventionally is considered to be civilian goods. It is, however, evident that these goods often have a potential military use.

2. 1947–1958

Secondly, the limitation of the analysis to civilian goods leads to a time limitation. The American policy started in late 1947 and was from the beginning designed to affect also civilian goods. The American restrictions on civilian goods still continue in 1967. In Western Europe, however, the governments have tried to restrict the embargo policy to military commodities. They did not succeed in upholding this principle against American pressure in the late 1940's and early 1950's. But in 1954 they forced through a big revision of the restrictions on civilian goods, and by 1958, after a second main revision, the West European embargo lists can, by and large, be said to contain mainly goods of obviously military nature, including those electronic and other components which are important parts in the modern weapons systems. Thus the stress in the book is laid on the period 1947 to 1958. After 1958 only the special U.S. policy, and its effects, have been included.

3. Focus on Europe

A third limitation is laid upon the subject from a geographic point of view. The embargo policy has been world-wide. Almost all the non-communist countries have in one way or another cooperated with the United States in its policy against all the communist countries. We will, however, focus our treatment of the embargo policy on the United States and Europe. The reasons for this limitation are not only the practical ones of difficulties with languages and access to material for other areas, but more important is the fact that the embargo policy mainly affected the trade of the USA and Western Europe with Eastern Europe. This focus does not preclude the treatment of non-European events when they seem of particular interest. In order to cover the main events of the policy, two outlines about the embargo events against China and Cuba have also been added.

III. WHAT IS NOT THE SUBJECT

The choice of an important aspect of Western economic warfare for an intensive case study is a narrow one. The reader should from the beginning be aware of what he will *not* find here.

1. Western economic warfare in general

The focus of the book is on the restrictions of various kinds on the Western exports to the East. Some related restrictions, especially in the United States, will be mentioned. But the book does not intend to give a full treatment of the Western economic policy acts against the communist nations, whether they have consisted in discriminatory import restrictions, coordination of policy in the different Western Caucus-groups in the UN organisations, or foreign aid to underdeveloped countries where communist infiltration has been feared, or attempts to destroy Cuban sugar export to the Soviet Union. A book covering all such aspects does, to my knowledge, not yet exist.

2. Soviet economic warfare

Neither is a treatment of Soviet economic warfare given here. This may, from the reader's point of view, be one of the most serious deficiencies of the book, as the reading, by necessity, will give a one-sided picture. Nor can the reader be referred to a book which gives a balanced view of both Soviet and Western economic actions in the post-1945 Cold War, as it does not exist. If he wants to redress the balance from reading this book, he should read one of the Western, also somewhat one-sided treatments of the Soviet actions, by e.g. Allen, Aubrey or Kovner.[8]

3. The general Cold War

Furthermore, this book is about one small aspect of the total Cold War. The importance of this aspect inside the Cold War cannot be given without a full study of the Cold War itself which, for obvious reasons, cannot be undertaken here. Thus the relative importance of the embargo policy in the Cold War cannot be but guessed at. It is, however, the author's contention that the embargo policy at least has been relatively more important than its neglected place in the general Cold War-literature would suggest.

4. General East–West trade

Finally, this book does not give a treatment of the general problems of East-West trade, or of intra-Eastern trade, such as it has developed after the Second World War. Also such a book remains to be written. The scope of the present book is more limited, in giving only one up to now very neglected aspect of this broader subject. The reader who wants to broaden his frame can find other parts of the picture in the works by e.g. Holzman, Pryor, Kaser or myself[9] and in the great number of small pamphlets which have appeared during the last years.

IV. SUMMARY

Having thus indicated what is and what is not the subject of this book, a summary of its contents and results will now be given. The picture which will be presented is considerably different from the one which is generally held in the West, and also from the one which the author had when he started this research work. This will be particularly striking in the summary where the results and conclusions of the book are drawn together without references to the detailed evidence, brought together in the following chapters. The sometimes doubtful nature of this evidence is also stressed in chapter 2. If the differences between the conventional view of East–West trade and the one here presented make the reader of this summary doubt my view, he should read the whole book before making his final judgement.

1. 1947–1953

"... the Muscovite, enemy to all liberty under the heavens, is daily growing mighty by the increase of such things as be brought to the Narve ... by means whereof he maketh himself strong to vanquish all other ... We do foresee, except other princes take this admonition, the Muscovite, puffed up in pride with those things that be brought to the Narve, and made perfect in warlike affairs, with engines of warre and shippes, will make assault this way on Christendom, to slay or make bound all that shall withstand him, which God defend."[10]

The spirit of this Polish warning, expressed in 1568 against British trade with Russia, was re-

vived in the United States in late 1947. The Cold War was an established fact, mutual East–West fears and suspicions had reached a high level, and the economic relations between the two halves of Europe had received a heavy blow from the impossibility of creating an all-European cooperation in the Marshall Plan. It was in this already hostile political climate that the United States decided to add controls on export to the communist nations, to the arsenal of Cold War weapons.

The first practical actions restricting American exports to the communist nations came around the turn of the year 1947/48, when the U.S. Administration decided to revive some remaining regulations from the Second World War, and use them for a complete control over the East-bound exports. In March 1948 the U.S. Congress also decided to add a special paragraph to the Foreign Assistance Act of 1948, connecting aid and trade. This paragraph was the first step in a chain of legislative actions which stipulated that the nations receiving U.S. aid had to conform to rules, laid down by the United States, concerning exports to the communist nations. These demands culminated in the so-called Battle Act of 1951, which is still in force. The threats of these laws to cut off American aid became a main bargaining weapon with which the West European governments were brought to cooperate in the embargo policy. They also became one of the foundations for the Soviet accusations that political conditions were tied to all American aid.

The main motive which can be identified behind these American actions was the desire to maintain the relative U.S. power superiority vis à vis the Soviet Union. During the first post–war years the United States was infinitely stronger than the Soviet Union. While the war had killed some 20 million Russians and destroyed much of the Soviet industrial capacity, the American economy had expanded by about 70 per cent during the war years. The Americans also had the atomic bomb monopoly. It was believed that an embargo on certain ranges of commodities could help effectively to maintain this superiority. This range of commodities had to be very wide, it was believed, as almost everything could be used for military production, directly or indirectly. To this a strong trend of anti-communist emotionalism was also added as a second main motive for the embargo actions.

Even if the desire to cut off trade with the communist nations gained the upper hand in both the American Congress and Administration, it should be noted that a strong conflict did exist between the Administration and Congress concerning the measures which should be used to achieve West European cooperation in the embargo policy. Congress enforced some very hard and undiplomatic formal conditions, while the President and the State Department, who had to carry out the foreign policy, wanted to, and also did, use considerably softer means. U.S. aid, for instance, was never cut off by the President, in spite of some obvious European violations of the Congressional legislation.

In the United States itself virtually all trade with the communist nations disappeared around 1950, something which can be taken as an indication of how many Americans would have liked to enforce the embargo policy also in Western Europe. (Chapter 3.)

In Western Europe, however, the attitutes toward trade with the communists were totally different. No one objected to export restrictions on those goods which conventionally were understood as being of strategic nature, and most countries had special legislation taking care of this problem. But when it was suggested that what was conventionally understood as peaceful trade should be cut down, the Europeans showed a strong reluctance to cooperate. When the Americans tried to force their will upon the Europeans by the Battle Act legislation and similar proposals, they were exposed to vehement attacks by West European newspapers and sharp criticism by West European politicians.

The West European reluctance to accept the American proposals was based on both economic and political considerations. Economically the West European nations had by tradition a much greater interest in East–West trade than the Americans, and this trade could, potentially, also decrease the heavy post-war European dollar shortage. Neither did the West European governments believe that the embargo policy was an efficient means by which power superiority could be maintained. Politically, the West Europeans resented the undiplomatic manner by which the U.S. tried to win cooperation, and disliked the American demands that already signed contracts and trade agreements with the communist nations should be unilaterally broken by the Western nations. It was also believed that the policy would tend to push

Eastern Europe together much more tightly than a more open trade policy, thereby increasing the difficulties of re-establishing an economically united Europe. This last argument was particularly important in Western Germany, where the German reunification issue dominated the thinking.

However, the American aid to Western Europe in the years around 1950 was several times larger than the total turnover of East-West trade, and as the West European governments did not want to run the risk of the Americans carrying out their threat to cut off this aid, they evidently had a great interest in showing some cooperation with the Americans on the embargo policy, and so they did. (Chapter 4.)

The initial bargaining position can thus be defined as an American wish to extend the definition of "strategic" goods to almost the whole of our S-NS axis, while the West Europeans wanted it to apply only to a small part of the S-end of the axis, as showed in figure 1–1.

This relative position, with the U.S. wanting to apply the definition of "strategic" to a wider range of goods on the S-NS axis than the West European governments wanted, has been maintained all through the policy, from 1948 till 1967, even if the positions on the axis have changed.

In order to overcome these differences and to achieve an efficient Western cooperation in the embargo policy, an institutional framework, the CG-Cocom-Chincom, was created. CG, the Consultative Group, and Cocom, the Coordinating Committee, were both created on November 22, 1949. CG was a policy-guiding committee on the ministerial level which met rarely, while Cocom was a permanently working group that was to draw up the joint embargo lists of the goods that should be controlled. Chincom, the China Committee, was created in 1952 and was merely another version of Cocom, meeting to discuss the special problems of the embargo policy against China. During the first years of their existence, up to 1953, the work of these groups was kept completely secret; even their innocuous names were considered classified material. They still exist in 1967, and all their work is still formally secret. The members of these two groups are Japan and all the NATO-members except Iceland, that is, USA, Canada, Denmark, Norway, England, France, Belgium, Luxembourg, Holland, Italy, Greece, Turkey, Portugal and Western Germany. This institutional framework has had no foundation in any formally binding international treaty, but has been considered as a "gentlemen's agreement" only. In spite of this it has in reality functioned as an international treaty with binding effects on the participating nations.

In order to make the policy efficient it was necessary to close the loop-holes for trade all around the world. Thus not only the West European NATO-members were included in the system. The United States concluded bilateral agreements with more than 50 nations in the West, concerning restrictions on trade with the communist nations. However, these arrangements were not always as efficient as desired by the most outspoken American embargo proponents. Not only did many Western businessmen circumvent the rules, and several Western governments close their eyes to these circumventions, but it even seems as if the governments to some degree cooperated in hoodwinking the U.S. Congress, both in drawing up the embargo lists inside Cocom, in granting many more exceptions to the U.S. legal rules than were intended by Congress, and in keeping Congress uninformed about the actual cooperation inside Cocom.

The actual difficulties in the decision-making process surrounding the embargo policy, as well as in executing the trade restrictions agreed upon in Cocom, and in legitimizing and sanctioning the policy, have been great. (Chapter 5.)

Two special difficulties for the policy were created by Germany and by the neutral nations, Sweden and Switzerland. In Western Germany the export regulations were formally harder than in the Cocom nations during the first years of the policy, but because of certain allied regulations about intra-German trade, the possibilities to smuggle through Germany were very great at least up to 1951.

Sweden and Switzerland were neutral and could thus not cooperate in the CG-Cocom arrangements. Both countries participated, however, in the discussions preceeding the formation of Cocom. Even if both countries insist that all restrictions which were actually laid on trade with the communist nations were undertaken as purely national actions, there is much that indicates that in reality they cooperated to a considerable extent with the Cocom group in Paris. This was mainly done through the embassies of the greater Cocom-nations in Stockholm and Berne. (Chapter 6.)

Eastern Europe did not have much chance of affecting the formulation of this Western economic warfare. They tried early on to raise the problem in several international organisations, mainly in the U.N. Economic Commission for Europe, but never with any result. Thus it was only left to Stalin to make the best of the embargo policy as an existing fact. Several politicians in both the East and the West also believe that Stalin *did* exploit the situation to his own advantage. Not only did he try to sow the seeds of disunity inside the West by making the businessmen of each country believe that their competitors in the other Western nations could trade much less restricted by the embargo than themselves. More important may be that the embargo policy, being a very evident and forceful example of Western hostility, could be used by Stalin to push the bloc together in a harsh manner, blaming the harshness of a policy he anyway had intended to realize, on the Western embargo actions.

There is no evidence that the communist nations organized a counter-embargo on lines similar to the Cocom ones. This, however, was not necessary, as the Eastern trade monopolies are of the nature that any corresponding cooperation could easily be executed through them. Trade development in some commodity groups also suggests that such cooperation actually did take place in the East. The communist nations also organized smuggling channels for embargo goods which seem to have been comparatively efficient. (Chapter 7.)

2. 1953–1967

The long, slow retreat on the embargo policy, which is still not completed, started in 1953. The Cocom embargo lists reached their maximum length in 1952–1953. Since then they have been much shortened, especially during the years 1954–58.

In 1953 Stalin died, a slight easening up of the deep-frozen East-West relations took place, a truce was signed in Korea, and the existence of a power stalemate in Europe was realized. In the economic sphere a slight recession in the West, increased Soviet activities to break down the embargo restrictions, and an innovational approach by the Economic Commission for Europe, combined to revive the volume of East-West trade. To this was added a realization in Western Europe that the embargo policy had failed. It could not be shown that the embargo policy from any single point of view had produced those results which its spokesmen had hoped it would. Neither in the economic, the military or the political spheres could it be proven that the embargo had had any positive effect for the Western side of the power struggle. (Chapter 8.)

The political and economic developments, combined with the non-realized results of the embargo policy itself, created a pressure in Western Europe for a relaxation of the extensive embargo lists which Cocom had established. During the first half of 1954 the Western powers negotiated intensely among themselves. The United States desired as restricted a revision as possible, while the West Europeans wanted to cut down the lists considerably. In February 1954 Winston Churchill, then Prime Minister, made a forceful speech to the U.K. Parliament to support the West European position. Half a year later, in August, the American side had to agree to a revision of the embargo lists which went much further than the U.S. negotiators had originally intended.

The 1954 revision did not apply to China, but only to Eastern Europe. Almost immediately the West Europeans started to criticise what came to be called "the China differential", that is, the fact that China could buy the goods that were on the China lists but not on the ordinary Cocom lists through Eastern Europe. The West Europeans considered this state of affairs to be irrational, while the Americans defended it strongly. In 1957, after long negotiations in which the United States had refused to accept any relaxation in the controls against China, the British government decided to go it alone. They informed their partners in Chincom in Paris that they intended, unilaterally, to abolish the China differential, and to use the same Cocom list against both Eastern Europe and China. This is the only reported occasion when the differences inside Cocom and Chincom have resulted in an open quarrel, instead of in a compromise solution, a fact which in itself testifies to the strength of the "gentlemen's agreement". The British were at once followed in their unilateral decision by all the West European nations, while the United States has continued a complete embargo on all trade, both exports and imports, with China. The U.S. embargo is still in force in 1967.

A second major revision in the Cocom lists

took place in 1958, under circumstances which were similar to those of 1954. The American side wanted to maintain as broad a definition of strategic goods as possible, and the West Europeans wanted to have as restricted a definition as possible. The European side seemed to have reached most of what it wanted. After 1958 almost all observers agree that the Cocom lists, which still exist in 1967, mainly include goods which are conventionally understood as having a "strategic" importance. The range of goods covered by the embargo lists on the S–NS axis has been small after 1958, according to estimations by the U.S. Secretary of State, Dean Rusk, perhaps one tenth of the whole axis. The details on the lists have been scrutinized in yearly revisions. (Chapter 9.)

The joint Western Cocom restrictions over exports to the communist nations have been so short during the last years that even Soviet commentators have said that they were of no importance. Contrary to this, the United States has, for itself, continued a very intensive export control also after 1958. There has, however, been an intensive debate going on in the U.S. about these controls, ever since, already in the context of the Polish upheaval in 1956, the Administration introduced the idea that an increase in East-West trade may help to increase the independence of the East Central European nations from Moscow. In this debate it is obvious how the Administration has grouped for greater flexibility from Congressional restrictions, but how Congress has consistently refused to give up its tight supervision of the field. Some changes of U.S. regulations have taken place, but the U.S. restrictions are still considerably more extensive than corresponding regulations in Western Europe. (Chapter 10.)

It is today impossible to maintain the original embargo motives, that the American restrictions over East-West trade to an appreciable extent can slow down the rate of growth of the Soviet economy or of the military sector of that economy. Instead there have materialised a great variety of explanations and justifications for the maintained regulations. A scrutiny of the most important of these shows, however, that even if they point to real problems in other contexts, these explanations provide a doubtful justification for the export regulations as such. It is easy to get the impression that the policy makers in the United States, particularly in Congress, have become so committed to the embargo policy that they cannot even discuss whether it may have been a failure and should be abolished. Instead they simply maintain the embargo restrictions and try to justify them with any possible explanation that can be grasped at. (Chapter 11.)

The post-1958 unilateral American embargo policy would be mainly a matter of American concern had the United States not also tried to enforce it in the rest of the non-communist world. Sometimes when the cooperation in Cocom fails they do so by recourse to other Western organisations. NATO, EEC, and the Berne Union were for instance, involved in the two much publicized cases of the steel pipe embargo in 1962–63, and in the form of time limits on the credit guarantees in 1963. Sometimes the Americans try to enforce domestic American legislation also in Western Europe and other areas. This has created much irritation in the nations exposed to these foreign regulations. (Chapter 12.)

3. Quantifications

In part IV of the book some quantifications are attempted. First, the relations between the many different embargo lists are described. A highly approximate calculation indicates that when the Cocom embargo lists were at their maximum length, they are likely to have comprised at least 30, and probably close to 50 per cent of all commodities which enter into international trade. (Chapter 13.)

A study of the development of post-war East–West trade from the embargo point of view reveals that this development shows a good co-variation with the embargo policy. Trade shows a slight absolute fall between 1948 and the first half of 1953 and the relative share of East-West trade in world trade decreases by almost half, from approximately 4 to 2 per cent. However, a number of other possible explanations which have been advanced in the literature, such as an independent communist wish for autarky, Eastern lack of export capacity, the Korean War, and the liberalization inside OEEC, also come into the picture. It is impossible to establish any fixed causal relations.

It is, however, established that the actual development of East-West trade during the first half of the 1950's was considerably below what, by any standard, could be called a "normal" level and also below some early expectations both in the United States and in Western Europe. Especi-

ally important is a projection of East-West trade expansion made by OEEC in 1948, which strongly suggests that the intra-Western liberalization inside OEEC has not been an independent cause of the early trade development.

A detailed study of both the direction and the structure of the trade does give an indication that the embargo policy has been an important factor in the development. There is a noticeable difference in the trade development between the Cocom nations, the neutral nations, and the "tied" nation of Finland. The picture is, however, far from clear, as several other factors must be taken into account, including the fact that the reported statistics may omit an amount of smuggled trade in the embargoed commodities. (Chapter 14.)

These difficulties in assigning responsibility for the development of East-West trade to various possible factors, prove to be less important when we try to find the effects of the embargo policy on the Soviet economy. It is here assumed that the whole decrease of this trade under an also assumed "normal" level is due to the embargo policy. If the spokesmen for the embargo policy are unwilling to accept this responsibility, they must also accept the fact that the policy has been even less efficient in affecting the Soviet economy than is indicated by our maximum assumptions,

In one "numerical exercise" which is exceedingly generous in assigning effects to the embargo policy, it is indicated that the policy potentially could have delayed the Soviet economic development during the whole of the 1950's by as much as one year, had the Soviet Union not undertaken countermeasures. In a slightly less unrefined calculation, with less "generous" assumptions for the embargo policy, it is indicated that for the decade of the 1950's the retardation of the growth of the Soviet combined military and investment sectors may have amounted to some four months, had the Soviet Union not undertaken any countermeasures.

In a comprehensive scheme for possible Soviet countermeasures, many of which have been illustrated earlier in the book, it is indicated that the Soviet Union actually had great possibilities to nullify some of these growth retarding effects. It is impossible to make any exact quantification of these countermeasures, but the combination of a few available figures suggests that we may be justified in assuming that at least half of the effects of the embargo could easily be compensated for. If this is accepted, the growth retarding effects given above should also be cut to half. (Chapter 15.)

Finally, in part V, only a short outline is given of some of the special features of the embargo policy against China, partly summarizing what has been mentioned in the main part of the book, partly adding some material, especially on the effects of the embargo on the Chinese economy. (Chapter 16.) A similar outline is also given on the U.S. economic warfare against Cuba after 1959. (Chapter 17.)

V. FOUR WIDER IMPLICATIONS

A number of conclusions for different aspects of the embargo policy will be presented in their appropriate places in the main parts of the book. Here we will present four more general implications, which this study does not prove, but towards which it may be said to point.

1. The overall efficiency of the embargo policy

From looking at all the facts presented in this book it is hard to avoid the overall conclusion that the described embargo policy has been a failure.

The embargo policy has undoubtedly carried with it a certain cost for the Soviet economy. This cost, however, has been small. It cannot even be proved that it has hurt the Soviet military sector at all, as internal reallocations may have shifted over the whole burden to the consumption sector. Thus the main rational motive for starting the embargo policy has proven to be badly founded.

This doubtful gain should be weighed against some other facts. Inside Eastern Europe the embargo policy may actually have helped Stalin to carry out a harsh centralization by providing a scapegoat for many of the economic difficulties. In East-West relations the embargo policy has clearly been a factor of great irritation to both sides, implying profits of trade foregone also in Western Europe. But it is not possible to show that it has improved the Western position in the power struggle. Inside the Western alliance itself, the embargo policy has evidently been a great nuisance, and the United States has lost much political goodwill because of its stubborn insistence, and the harsh methods used in pressing through its will.

The balance between all these factors seems to indicate a clear loss for the United States, as the country mainly responsible for the embargo policy.

2. Efficiency of embargo policies in general

Each single historical embargo policy must, of course, be treated on its own merits. But if any general conclusion may be drawn from this study of one single embargo case, it is that an embargo policy can hurt but it hardly ever kills. This inductive conclusion is supported by other experiences, such as the Western embargo measures against Russia in the first years after the Revolution, and by the Arab embargo actions against Israel. It may gain even more support from the fact that more drastic actions against the economy of an enemy, such as the allied bombing of Germany in the Second World War proved to be relatively ineffective. Post-war American studies have shown that "even under blockaded wartime conditions, substitutes for the materials denied or destroyed were rapidly developed and factories were quickly reconstructed by transfers of machinery from other less essential industries."[10A]

It seems to be a valid conclusion that those who today propose embargo actions of different kinds against different areas should at least be required to show that a considerable degree of probability does exist that the proposed actions are likely to lead to the desired ends. The same applies to those who in the American Congress still advocate the return to a virtually complete embargo on trade with the communist nations. The burden of proof is clearly on those who claim that an embargo policy is an efficient instrument of foreign policy. Experience seems to indicate the contrary.

3. The dangers of the embargo policy to Western institutions

"It is ironic that the curtailment of freedom in the West has been chiefly due to the belief that the West is fighting for freedom." This general statement by Bertrand Russell[11] is particularly true with respect to the curtailment of Western freedom in foreign trade. One of the more deplorable consequences of the embargo policy, from the point of view of the West European business communities, is the restrictions and controls which have been placed on the free flow of commerce. These controls have not only been restricted to those goods which have been considered strategic. To achieve efficiency in stopping the exports of these goods it has been necessary to introduce controls over almost all trade, over international banking activities, over transit trade, over free ports, and also by putting those who have not conformed to the rules on more or less secret blacklists or graylists, with grave economic consequences.

This has led the embargo policy into methods which are of a nature usually associated with the communist system in wide circles in the West. This can be shown by the following facts:

a) that the US trade policy towards the communist nations has been much more directed by political decisions than by economic factors;
b) that these political decisions have been carried through by means of great secrecy in the policy coordination with allied nations;
c) that in implementing the policy doubtful legal practices have been used;
d) that the policy decisions have made American economic intelligence work necessary, and not only against the communist countries;
e) that power pressure has been put on reluctant allied nations in a way which should be alien to a voluntary alliance.[12]

It is hard to avoid the conclusion that in the belief that they were fighting for freedom with the arms of embargo controls, the Western policy-makers have actually curtailed the cherished Western freedom to trade, and introduced political methods which are usually attributed to the communist system.

4. The deficiencies of the conventional East–West trade analysis

One conclusion which can be drawn from this book is that the currently dominating analysis of post-war East-West trade is seriously deficient. These deficiencies relate especially to the oft-repeated and one-sided statements about politically directed trade, and about autarky strivings in the communist nations.

A. Politically guided trade

It is conventionally claimed in the Western literature that the foreign trade of the communist nations is guided by political and not by econo-

mic criteria.[13] If this is understood to mean that communist foreign trade potentially can be, and in a number of cases actually has been used for political purposes, then the statement is correct. But if it is claimed that the present volume, direction and structure of communist trade is not heavily influenced by economic criteria, then it is false. Present communist trade is clearly directed by a mixture of both economic and political considerations.

However, in stating the importance of the political element in communist foreign trade, the Western authors often forget to add that the political element has played a big role also in the West in the sector of East-West trade. In the interwar period the Soviet Union was exposed to a range of politically motivated trade actions and after the Second World War all the communist nations were exposed to similar politically motivated actions from the Western nations. One conclusion which can be drawn from this book is that if we are seriously interested in understanding, and only in understanding, the development of East-West trade, we have to recognize that the economic and political criteria are closely interconnected *on both sides*.

B. Communist autarky

Another deficiency in the dominating Western East-West trade literature is the common but usually superficial reference to Soviet or communist autarky as a main factor in the explanation of the low level of trade. What is deficient is not that autarky is brought into the analysis, where it evidently belongs, but that the reasons behind the autarky tendencies, among which the expected and actual Western policy is a main one, are neglected.

As will be pointed out in the main text, it is evident that the strong tendencies to autarky which existed in Eastern Europe under Stalin were, in part, directly caused by the described embargo policy. When the Western powers refused to export a wide range of goods to Eastern Europe, they forced a corresponding degree of autarky upon the communist nations. Fears that the embargo lists might be extended to still other goods also induced an economic planning aimed at becoming invulnerable to such external disturbances.

The Eastern autarky and the Western embargo policy are inseparable elements in any explanation of the East-West trade development during the last twenty years. One cannot be treated, or even mentioned, without the other, if we want to give a just picture. Both elements are also strongly influenced by the development of the Cold War in general, in which they also form active, if perhaps less important parts of the vicious circle.

This interdependence should, however, not be understood to mean that the Eastern autarky can be fully explained by the embargo policy. These communist tendencies go much further back. They are to be found, for instance, in the discussion in Russia in the last century whether the country should modernize with or without the help of Western Europe. At that time they were based on an infant industry argument, which the Marxists later developed into a theory for creating dynamic comparative advantages. Since 1917 the communist autarky has also been based on expectations of behaviour in the surrounding hostile capitalist world, which the Western actions time and again have proven to be justified. Actions and reactions have reinforced each other into what can be called a "vicous circle of autarky in East-West trade".[14]

The rapid growth of the foreign trade of the communist nations since 1953 should, however, cast some doubts about the correctness of the repeated reference to communist autarky as a dominating explanation for present East-West trade.

After 1953, and particularly from 1955 to 1960, the foreign trade of the communist nations has grown more rapidly than world trade in general.[14a] The level of East-West trade may still be considered low, but in view of the necessity for changes and adaptations in the internal resource allocations concomitant with a rapid expansion of foreign trade, the question may be raised if the communist trade expansion during the last fifteen years does not indicate a slow but steady wish to overcome earlier autarky tendencies.

It should also be stressed that the communists have not invented autarky. Far from it. "Because it was self-sufficing, each State claimed to be self-governing: avtonomia flowed inevitably from avtarkeia. Home-Rule and Self-Sufficiency are ... almost convertible terms"[15], says Ernest Barker about the Greek city-states who jealously guarded their autonomy.

This desire not to expose its autonomy to risks of attacks from the capitalist world has been a

strong undercurrent in all communist foreign trade thinking during the last fifty years. Undoubtedly it would have operated also during the last twenty, even if the West had not started an embargo policy. This undercurrent will also continue to flow in the foreseeable future, even if it is likely to lose force. It has been temporarily reinforced by the embargo policy described in this book, and it will still be reinforced by new measures or even by unrealized proposals of new measures of the embargo type. The same undercurrent is, however, also operative on the Western side. It has been evident, for instance, in the Western restrictions on oil imports from the Soviet Union, and in the American policy to warn the underdeveloped nations against too much trade with the Soviet bloc.[16]

The conclusion must be that if we want to explain the low level of East-West trade by pointing to the communist autarky, we must also point out that in part this autarky has been directly caused by Western embargo actions; in part it is an outflow of a traditional fear of becoming too dependent on a potential adversary, a fear which has been shared, also in actions, by the Western nations.[17]

Chapter Two. Notes on Methods, Sources and Value Premises

> Such being the nature of our subject and such our way of arguing in our discussions of it, we must be satisfied with a rough outline of the truth and ... with broad conclusions. It is a mark of the educated man and a proof of his culture that in every subject he looks for only so much precision as its nature permits.
>
> *Aristotle*, Ethics, 1:3.

The following chapters cannot be properly understood and evaluated unless the reader has been informed about some methodological considerations underlying the presentation, as well as about the nature of the sources on which it is based, and the value premises of the author. This necessary background information will be given in this chapter.

I. A NOTE ON METHODS

1. Basic principles

The choice of method has been decided by the intentions behind the book and by the availability of material. The intentions have been to describe and to analyse the facts about the Western embargo policy against communist nations after the Second World War.

The first task was to collect as many facts as possible, and the second to bring them together in some kind of a coherent pattern. In so doing I have mainly been guided by two principles, strongly advocated by Gunnar Myrdal. The first one is Myrdal's definition of a theory as a "logically correlated set of questions to the material." The second is that the questions posed should be of a high degree of relevance for explaining reality.

The arrangement of the material, by and large, corresponds to a coherent set of questions posed to the available material. Each following chapter is centered around a main question, and within each chapter a number of secondary questions are treated. But the questions posed should also have relevance for explaining reality. This principle has helped to limit the treatment of the questions to manageable proportions. The investigation has not been pursued into details, where the degree of relevance of possible answers has appeared to be low.

This principle of relevance may help to explain what to some may appear as lack of methodological rigour. As one author has put it:[1]

"It has been observed that methodological rigor can be obtained only at the price of dealing with relatively insignificant problems, whereas the investigation of significant problems suffers from a lack of this rigor."

The nature of the chosen problem is such that a complex of different factors, usually relegated to different academic disciplines, needs to be treated. The main ingredients are economic, political and legal elements. In trying to respond to the often voiced request for an integration of the so-