Carter's sanctions: Who really gets hurt?

by Richard Freeman

The Carter Administration's imposition of trade sanctions on U.S. export of agricultural goods and high-technology components to the Soviet Union will have a devastating impact on the U.S. economy, especially on its most important industrial and agricultural sectors. The sanctions, which deny U.S. shipment of 513 million bushels of grain and the cancelation of applications for export licenses involving deals totaling several billion dollars could have an effect approximating a strategic bombing of U.S. industry and farm centers, sparing the Soviets the effort.

Hastily slapped together, although long on the back-burner, the sanctions will hardly dent the Soviet Union's trade. Already, for every high-technology deal the U.S. backs out of, the French, Germans and Japanese—and even Argentina and Brazil—are poised to step in with the denied goods. While the U.S. was sending Undersecretary of State Christopher to various European capitals to armtwist leading nations into joining the boycott this week, high-powered trade delegations from Nippon Steel and from Krupp Gmb arrived in Moscow to talk big trade deals.

Meanwhile, the governments of Brazil and Argentina announced they would send wheat and soybeans to the Soviet Union to replenish some of the agricultural supplies cut-off (see box).

The parallel threat of an international banking community cut-off of credit to the Soviets, voiced this week in the London *Financial Times*, is just as unlikely to succeed. The Soviets—resting on large gold holdings—are more secure financially than the Western creditors who propose to withhold financing from them.

In and of itself, the loss of trade with the Soviet Union, valued at only $2.5 billion in 1979 exports, does not seem a big loss. This after all is merely 2 percent of 1979 exports of approximately $145 billion. Moreover, the industrial segment of this export, approximately 25 to 30 percent of the $2.5 billion level or $650 million, is not very large.

Yet this belies the true significance of the move. The most important segment of an economy is that part which represents its highest technology—telecommunications, nuclear, electronics, computers, and other capital goods. This segment thrives only in the context of an export trade, where the introduction of these high-technology goods on foreign markets particularly in the Third World, keeps order books full and growing.

The Soviet Union, the world's second largest economy, represents a potentially unlimited market for U.S. high-technology exports. President Nixon recognized this and during his May, 1972 visit to Moscow, where he signed an historic series of trade, scientific and cultural accords, the President stated that trade with the Soviet Union had the potential of doubling every few years to the point that, by 1980, U.S. manufactured capital goods exports could have been $10 billion to the U.S.S.R.; to the East bloc as a whole, the total might have reached $30 billion this year and possibly much more. Nixon, however, did not remain long in office.

Recognizing his point, export-oriented West Germany has enabled its high-technology sector to grow by leaps and bounds through increased trade with the Soviets and East bloc. The accord for a 25-year trade deal between Schmidt and Brezhnev in May, 1978 was an outcome of this process. The French announced this year they had tripled their trade with the U.S.S.R. over five years. This also makes the point: an export oriented economy whose technology is forging ahead.

The chart shows the same to hold true for both Japan and Italy.

Yet, beginning with Nixon's removal from office, the U.S. has let its trade with the Soviet Union decline. This is reflected in the fact that since 1976, overall U.S. exports, when corrected for inflation, have barely risen at all.

The loss of the Soviet trade will mean a serious setback for the U.S. industrial sector. The $2.5 billion in total exports, by itself, means roughly 75,000 to 150,000 jobs in high-technology industry or related agricultural production. A Commerce Department rule of thumb says that each $1 billion of exports means 30,000 to 60,000 industrial and agricultural jobs, depending on the blend of industries affected. Moreover, the U.S. boycott of the Soviets implies increasing hostilities with the East bloc as a whole—an additional $2 to $3 billion in exports that could be jeopardized or lost. Much of the trade with the remainder of the East bloc is in capital goods.

It has been suggested by leading Defense Department sources, that with the current U.S. war build-up, U.S. goods originally destined for the Soviet Union, consisting mostly of electronics, computers and drilling equipment, will be absorbed into U.S. armaments capacity within the U.S. This might be the case. But if that were to occur, the purchase of the equipment would have to be born by the tax-payer, contributing to inflation. Moreover, it would lock the U.S. into a national-autarchy war economy, an unacceptable solution.

The U.S. embargo will have some impact on other countries' trade with the Soviets. For example, it is pointed out that the firm Honeywell-Bull, the French electronics firm, is pushing hard to expand its orders in the Soviet Union, but relies on a special part that is only produced by U.S. Honeywell. This part, of course, is now embargoed. However, if the Japanese and French combine, within 3 to 6 months time, they can come up with a suitable replacement. At this point, U.S. goods are no longer indispensable, and the U.S. is perhaps permanently out of a major market. Various combinations of other countries can and will step in.

If the U.S. continues its sanctions-and-bluff course, Soviet and East bloc orders will be far from the only losses. Representative is the case of Iran. By playing the "Islamic fundamentalist card," Secretary Vance and security director Brzezinski have lost the U.S. $5 to $8 billion in exports to Iran, again most of a high-technology nature, and perhaps a quarter of a million related high-technology manufacturing jobs.

The continental European powers, France and West Germany in particular, have indicated that they do not share President Carter's penchant for self-inflicted economic collapse. In a series of statements by goverment officials and leading business spokesmen, the French and Germans, joined by the Japanese, have said they want no part of the boycott. They will vote up resolutions against the Soviet Union in the United Nations, but not where it counts—they will not surrender East-West trade.

Europe and Japan's stake in trade with the Comecon bloc

Exports to Comecon during 1979

	Estimated dollar value	Percent of total exports
West Germany	$9.0 billion	5%
Japan	7.0 billion	5
France	5.0 billion	4
Italy	2.8 billion	5
United States	3.0 billion	1

The accord signed by Brezhnev and Chancellor Schmidt in May, 1978—for five consecutive five-year trade accords—is representative of the type of arrangements involved. Since then, Chancellor Schmidt has used the leverage of stable relations with the Soviets, along with Giscard of France, to further the design of the European Monetary System.

Despite intensive pressure from Washington, conveyed by Undersecretary of State Warren Christopher this week in Bonn, the German business community to a man is denouncing or pooh-poohing the boycott. Otto Wolff Von Amerongen, the grand old man of German industry who rarely speaks publicly unless he is speaking for a consensus, said Jan. 13, "The industry of the Federal Republic of Germany is interested in maintaining detente relations with the Soviet Union and will try hard to increase the exchange of goods with the East bloc."

In the middle of the U.S. press hysteria over Afghanistan this week, Bertold Beitz, head of Krupp, was in Moscow finalizing a mammoth 20 billion Deutschemark ($11.6 billion) natural gas pipeline deal for the immense west Siberian oil fields. A more direct slap in the face to Jimmy Carter can hardly be imagined.

The Japanese, at the same time, had a steel delegation in Moscow led by Nippon and three other companies. They are negotiating a 700,000-pipe deal, which if concluded will be financed by the Japanese Eximbank.

Perhaps the most insulting rebuff of Vance and Brzezinski's trade sanctions came when long-standing U.S. allies, Argentina and Brazil, decided that they had discovered "free enterprise" and would ship to the Soviets much of the wheat and soybeans the U.S.S.R. needs. In addition, as one leading British merchant banker in New York City stated Jan. 15, "the Soviets might always get this grain by way of France from France's secondary grain market. There's a history of this, you know." In addition, reports the Jan. 15 *Journal of Commerce,* the last month has seen a sharp increase in the number of Soviet ships loading and unloading grain in the harbor of Hamburg, West Germany.

A trump card?

To get tough, the U.S. State Department and the British financial press are now talking of a U.S. trump card: U.S. banks will lead the internatonal banking community in a boycott of lending to the East. The Jan. 10 *Financial Times* blared a front page headline, "Tough Line Likely on Further Lending to East Europe," which appeared above a story predicting that the West might cut off future lending to the East bloc, and get tougher on rolling over East bloc debt.

A quick glimpse of the facts shows that the State Department and the British are engaged in wishful thinking.

The total external debt of the East bloc is currently placed at roughly $75 billion, of which $45 billion is lent by private Western banks and $30 billion is lent by the agencies of Western governments. On the private debt, East European nations owe $4 billion in debt service in 1980, and may be expected to take out another $3 to $4 billion in new borrowings from private banks, if past yearly levels hold this year.

How does the United States figure in this overall picture? The U.S. private banks, stationed at home, abroad and including wholly owned subsidiaries, hold approximately $7 billion in obligations against East bloc governments. This represents 15.5 percent of total Western private bank lending to the East bloc. On the government lending side, the U.S. holds only $1 billion of East bloc obligations, which is only 3.3 percent of the Western total. Overall, the U.S. holds $8 billion of the $75 billion in combined Eastern European debt, 10.6 percent. This means that a full 90 percent of the debt is held by other countries, principally Japan, West Germany, France and Italy. It is clearly they, and not the U.S. who will call the shots on lending to the socialist nations. The actions of these continental Europeans and the Japanese in concluding trade deals with the Soviets this week speaks firmly: No cut-off of lending is contemplated.

Were the U.S. to suddenly refuse to roll over their portion of the $4 billion in debt service the East bloc owes this year to the private banks, the Soviets could solve any difficulties by selling gold on the open market. The Soviets sold 400 tons of gold in 1978, but cut back sales of gold to 200 tons in 1979. If one assumes that the Soviets mined and refined 400 tons of gold last year, but only sold 200 tons, then they have an additional 200 tons in storage. But the crowning irony of the situation is that they are so secure financially that for the last six months the Soviet Union has been prepaying on their loans from private Western banks.

In sum, the U.S. will not dent the Soviet financial situation and barely change its trade position. The Europeans and Latin Americans will gain by the situation. Indeed, the only large victim of the Carter administration sanctions policy against the Soviet Union will be the American industrialist, the American farmer, and the American consumer.

America's friends answer 'No'

Brazil. "This is one of the few times when the country could take advantage of an international crisis situation," stated Brazilian Finance Minister Karlos Rischbeiter Jan. 11, in explaining why Brazil rejects a grain embargo of the Soviet Union. Brazil exports some corn and a large part of its big soybean crop to the Soviet Union.

West Germany. "Political developments demand political reactions in the first place. General boycott and embargo actions have never had success, but rather lead to disintegration of the international division of labor and of world trade. Rhodesia survived sanctions and the Soviet Union will do that, only more comfortably," said leading German businessman Otto Wolff Amerongen in the Jan. 13 *Welt Am Sontag.*

Argentina. "We will not participate in the boycott. We were handled badly. We simply received a letter asking us to a meeting at which it was implied we were expected to agree to the U.S. grain blockade," said an Argentinian diplomat speaking Jan. 15.

France. "The relations which we ... have with the Soviet Union are normal economic relations through which we export all kinds of advanced equipment albeit not necessarily sophisticated, and we buy full price a whole series of goods, notably oil. We buy more oil from the Soviet Union than from Iran—and also cotton and several raw materials. . . . I will add that France has as a principle not to use its trade relations with states for political ends." This statement was made by French Foreign Minister Jean Francois-Poncet during a Jan. 6 interview with Europe No. 1 Radio Station.