6 Cold War Economic Warfare, 1949–1951

EMBARGOING RUSSIA AND CHINA

The Cold War was also fought with economic means. Under American leadership the Western countries began to embargo Russia and, once the Korean War began, China. As in any such effort, the neutrals presented a problem because, as potential loopholes, they could undermine the arrangement. Sweden and Switzerland, therefore, had to be dealt with. As will be shown, the United States exerted considerable pressure to make the two neutrals part of its economic warfare strategy.

At first, the American government was reluctant to fight the Cold War with economic means. Once the Second World War ended, it committed itself to a programme of worldwide trade liberalisation and to the gradual abolition of wartime controls. If Russia was now to be embargoed, this trend would have to be reversed. It should thus come as no surprise that some sections of the country and some branches of government did not welcome new controls. Nevertheless, the question of embargoing Russia arose in late 1947, when it became clear that Marshall Aid would soon flow to Europe in large quantities and with important consequences for East–West relations and, more precisely, for the war-making potential of Eastern Europe and the Soviet Union. A new policy was needed.

There were two schools of thought within the government. At the Department of State the dominant opinion was that liberalisation should be continued, especially since there seemed to be no immediate need for concern. Trade with the USSR and Eastern Europe was extremely limited and decreasing. The recovery of Europe would at first accentuate this trend since it would make those commodities which were already in short supply and which the Eastern countries needed most even scarcer. Through this natural process, a limitation of East–West trade would be accomplished "by means which could not raise any question of the propriety of our action in the light of the principles of non-discrimination and trade freedom which we
have stood for in our international trade policies'.

At the Department of Commerce and the National Security Council a different opinion emerged. These agencies demanded the screening of all exports to Europe or what amounted to laying the foundation for a potential American embargo. This view prevailed when the government decided on a new course late in the year. The NSC decision of 17 December 1947 states that all Europe, including the USSR, should be declared a recovery zone for which all American exports had to be controlled. Licences were to be issued according to the following criteria: (a) importing countries had to show adequate need, (b) ERP and world peace had to be served, and (c) the position of the United States ought not to be adversely affected.

An additional instrument for controlling East-West trade was written into the Foreign Assistance Act of 1948 (Marshall Aid). Labelled the ‘Mundt Amendment’ after the Congressman who sponsored it, a section of the act directed the Administrator of Marshall Aid to refuse delivery to participants of such American commodities ‘which go into the production of any commodity for delivery to any non-participating European country which commodity would be refused export licences to those countries by the United States in the interest of national security’.

The Mundt Amendment went a good deal further than the NSC decision. If the first control action focused on American trade and aimed at all of Europe, this second action was aimed specifically at aid-receiving countries and made them instruments of American foreign policy. As one commentator put it, ‘this provision throws part of the United States export control system around the Marshall Plan countries’.

The administration was not too happy about the provision. For one thing it constituted a propaganda victory for the Russians who had argued for some time that Marshall Aid was nothing but another aspect of American imperialism. Also, it disregarded the fact that the success of the Marshall Plan depended to a large extent on supplies from Eastern Europe. An obvious American attempt to organise the Western European countries into a formal blockade might give the Russians a welcome excuse to do the same. Needless to say, the Western Europeans themselves were not too happy about the provision either.

As a result, the government was in no hurry to put pressure on the Europeans. Top priority was given to implementing the