

A RAND NOTE

U.S.–Soviet Trade in the 1980s

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PREFACE

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SUMMARY

OVERVIEW OF SOVIET-U.S. TRADE

Soviet trade with the developed West is small, both absolutely and relatively, for the Western trade partners; it is particularly so for the United States. Moreover, the first half of the 1980s was a period of overall decline in East-West trade. American exports of agricultural products, particularly grain, dominate Soviet-U.S. trade; U.S. and Soviet sales of manufactures to each other are insignificant.

U.S. GRAIN SALES

Sales of corn and wheat accounted for roughly two-thirds of all U.S. exports to the USSR in the early 1980s, but the level of U.S. grain sales has been slipping sharply. Since 1984, Moscow has been increasingly reluctant to buy U.S. wheat, failing to fulfill purchase commitments under the 1983 Long-Term Agricultural Agreement by 1 million tons in 1985 and by almost 4 million tons in 1986. In 1987, the Reagan administration apparently decided to meet foreign price competition by providing extensive subsidies for Soviet purchases of U.S. wheat.

SOVIET VIEWS ON TRADE WITH THE UNITED STATES

East-West trade in general poses a dilemma for Soviet leaders. Recognition of the inadequacies of Soviet technology and the Soviet system of development inclines leaders to seek technological transfers from the West, but such reliance is also seen as incurring high costs of political and economic dependence. Gorbachev may favor greater involvement of the USSR in the international economy, but he has adopted Brezhnev's autarkic grain production program, and he stresses the priority of Soviet trade with Eastern Europe. Moreover, trade between the USSR and the West has not prospered thus far in his period in office.

Soviet writings on U.S.-USSR trade blame U.S. political barriers for the low and stagnant level of that trade. Moscow seeks removal of U.S. restrictions on exports of high technology, the award of Most Favored Nation (MFN) status, and access to U.S. official credits, as well as guarantees against future U.S. trade sanctions. These changes and increased Soviet-American trade may be sought largely for their political significance, as one of the foundations for transforming U.S.-Soviet relations. The Kremlin certainly has an

economic interest in greater trade with the United States, but it faces important balance-of-payments as well as political obstacles. It argues that a radical change in the political climate of U.S.-Soviet relations would be a prerequisite for any substantial increase in Soviet-American trade.

U.S. VIEWS

Apart from some intramural conflict in early 1981 on whether or not to drop the grain embargo, there has been little dispute in the Reagan administration on the advisability of selling grain to the Soviets. On technology exports, however, the Department of Defense has continually been at odds with the Department of Commerce, the latter often allied with the Department of State. The DoD has emphasized the security costs of such transfers, whereas Commerce has been more sensitive to the interests of U.S. businessmen. In 1987, there was a noticeable softening of U.S. controls, encouraged, most likely, by alarm over the U.S. trade deficit and foreign debt.

PROSPECTS

The network of Soviet multi-year purchase agreements with major third-country producers and the determination of Soviet leaders to limit their dependence on imports make it clear that the future of U.S. grain sales to the Soviet Union cannot be bright. Major changes in the level of Soviet imports of U.S. machinery and equipment will depend in part on Soviet success in escaping dependence on oil and gas sales for convertible currency by increasing exports of machinery to hard currency markets. In addition to its intrinsic, systemic problems, this campaign will face the special difficulty of political restrictions in the United States, where there is likely to be a lower ceiling on easing of export controls than in other Western countries. Hence, Moscow will probably continue regional diversification in capital as much as in food imports.

This trade picture may be transformed by changes in Soviet economic policy. Some radical proposals are being discussed in the Soviet media, and attempts to implement such proposals might substantially change current trade patterns and volumes. They might also affect the climate of East-West relations.

U.S.-SOVIET TRADE IN THE 1980s

Judged by either absolute or relative size, trade with the Soviet Union is not quantitatively significant for any country in the Western world, except Finland. The relative magnitude of Soviet trade with the United States is particularly low and has been declining. Economic policy of both countries is the major explanatory factor, but the Soviet economic structure also plays an important role.

OVERVIEW OF SOVIET-U.S. TRADE

In 1984, trade with the USSR accounted for 4 percent or less of the total exports or imports by West Germany, France, Japan, the Netherlands, and Britain; only Italy among the major Western trading nations took as much as 5 percent of its imports from the Soviet Union. Finland, in a unique relationship with the USSR, does 20 to 25 percent of its total trade, imports as well as exports, with its eastern neighbor. The United States delivered 1.5 percent of its exports to the USSR but obtained only 0.2 percent of its imports from the Soviets.¹ U.S. imports from the Soviet Union have never been large, but U.S. exports, which have been of much greater political importance to both sides, are now also falling because of the politics and economics of grain.

Table 1 shows the changes in levels of Soviet trade with major developed Western partners in the 1980s. The United States is a smaller customer of Soviet goods than any other country listed except Canada. However, the United States was second only to West Germany as the largest source of Soviet imports in 1984 and 1985 and was among the top three or four in the other years. The level of U.S. exports to the Soviet Union until 1985 fluctuated between \$2 billion and \$3.5 billion but fell to \$1.6 billion in 1986. (The high-water mark was \$3.8 billion in 1979.)

This has not been a period of burgeoning Soviet trade with the developed West. The dollar value of Soviet trade with the West in 1985 was 9 percent below the 1980 level in exports and 5 percent below in imports; in 1986, exports to the West dropped another 16 percent and imports dropped an additional 2 percent. In this period, the structure of Soviet

¹Data from the CIA, *Handbook of Economic Statistics 1986*, September 1986, p. 97, except for Finland's import ratio, on which the CIA figures are evidently in error. See United Nations, Department of Economic and Social Affairs, *1985 International Trade Statistics Yearbook*, Vol. I, New York, 1987, p. 378.

Table 1

SOVIET TRADE WITH THE DEVELOPED WEST, 1980-86
(Billions of U.S. \$)

Country	Exports						Imports							
	1980	1981	1982	1983	1984	1985	1986	1980	1981	1982	1983	1984	1985	1986
Austria	.9	1.2	.9	.8	.9	1.0	.8	.6	.7	.7	1.1	1.1	1.0	1.2
Belgium	1.3	1.0	1.4	1.3	1.5	1.0	.9	.6	.6	.8	.8	.6	.7	.6
Canada	—	.1	—	—	—	—	—	1.5	1.9	1.9	1.7	1.7	1.1	.9
France	3.5	3.5	3.2	3.3	3.0	2.6	2.2	2.3	2.3	1.7	2.3	2.2	1.9	1.6
FRG ^a	4.8	5.1	5.6	5.4	5.6	5.1	4.1	4.6	3.8	4.0	4.5	4.2	3.9	4.2
Italy	3.2	3.5	4.0	4.0	3.9	3.0	2.2	1.4	1.4	1.7	1.9	1.6	1.6	2.1
Japan	1.5	1.1	1.0	1.1	1.0	1.1	1.4	2.7	3.1	4.0	2.9	2.5	2.7	3.1
Netherlands	1.6	1.4	2.2	1.7	2.0	1.2	.8	.6	.6	.5	.7	.3	.4	.3
Sweden	.5	.4	.6	.9	.7	.6	.4	.5	.5	.5	.3	.3	.4	.3
Switzerland	.7	.5	.8	.7	.7	.5	.4	.6	.7	.6	.5	.5	.7	.6
UK	1.3	.9	1.1	1.6	1.7	1.5	1.8	1.5	1.2	1.0	.9	1.0	.8	.7
U.S.	.2	.3	.2	.4	.4	.4	.4	2.1	2.3	2.9	2.1	3.5	2.9	1.6
Finland	3.1	3.2	3.3	3.4	3.0	2.8	2.3	2.9	3.8	3.9	3.6	2.8	3.2	3.4
"Industrially Developed Capitalist Countries"	24.4	24.0	26.0	26.5	26.2	22.2	18.7	24.2	25.2	26.0	25.2	24.0	23.0	22.5

SOURCES: For 1980-85, Ministerstvo vneshnei torgovli, *Vneshniaia torgovlia SSSR*, Moscow, annual issues. Values in foreign trade rubles are converted to dollars at average official exchange rates for the year (from CIA, *Handbook of Economic Statistics 1986*, p. 61). For 1986, *PlanEcon Report*, Vol. 3, No. 16, April 17, 1987. PlanEcon cites a slightly different exchange rate for 1985 than does the CIA, resulting in small differences in the totals from those shown here.

^aIncluding West Berlin.

trade has shifted toward the Communist countries, particularly the USSR's partners in the Council for Mutual Economic Assistance (CMEA).² East-West trade was particularly poor in 1985 and 1986, largely because of faltering Soviet oil production and the precipitous slide in world oil prices. These developments cut sharply into Soviet export revenues and necessitated cutbacks in imports. Even so, the trade surpluses of 1983 and 1984 turned into a deficit in 1985, which worsened in 1986 by about \$3 billion.

One of the most significant import cuts made by Moscow in response to these unfavorable developments was that in food, particularly grain. The cutback was made possible by an improvement in the Soviet grain harvest (192 million metric tons in 1985 and 210 million in 1986, compared with an average of 180 million in the previous five years). It has been estimated that the value of Soviet food imports from non-Communist countries dropped 30 percent in 1986.³ Grain purchases, as shown below, plunged 52 percent in value and even more drastically in tonnage. One reflection of that adjustment was a 45 percent slash in aggregate Soviet imports from the United States.

A noteworthy feature of U.S.-Soviet trade relations is the dominant role of agricultural products, particularly grain (discussed below), and the insignificant role of manufactures in U.S. sales. According to Department of Commerce data, machinery and equipment make up a declining share of the total, beginning at 13 percent in 1981 and falling to 3 to 5 percent in 1984 and 1985. During that period, chemicals had a fluctuating relative role, varying between 6 and 12 percent; the variation in the fourth main category, inedible nonfuel crude materials, was even greater, between 3 and 13 percent. U.S. imports, which were on the average only one-sixth the size of U.S. exports to the USSR, had a more balanced structure, with 80 to 90 percent of the total divided among mineral fuels and lubricants, chemicals, and manufactured goods other than machinery.

The extremely small share of machinery in U.S. sales to the USSR is striking, inasmuch as machinery has constituted 20 to 25 percent of all Soviet imports from the

²The magnitude of this structural change is difficult to calculate because Soviet trade flows are reported in foreign trade rubles. The value of this accounting currency differs sharply among the different regional categories of Soviet trade, particularly between the developed West and the CMEA countries. In foreign trade rubles, the CMEA group share rose from 49 percent in total two-way trade in 1980 to 55 percent in 1985, and the developed West share fell from 34 to 27 percent. (The share of other Communist countries rose a point at the expense of that of the developing countries.) Soviet-CMEA trade growth slowed perceptibly in 1986-87.

³*PlanEcon Report*, Vol. 3, No. 16, April 17, 1987.

developed West in the 1980s. Soviet imports of machinery from non-Communist countries in this period fluctuated sharply in dollar value, reaching a peak of 29 percent above the 1980 mark in 1983 and ending up in 1986 just 2 percent above the 1980 level.⁴ The U.S. share in these sales is now negligible.

U.S. GRAIN SALES

Exports of food and live animals accounted for 60 to 80 percent of U.S. sales to the Soviet Union in the first half of the 1980s, according to Department of Commerce data. Two grain products alone, corn and wheat, comprised two-thirds of all U.S. sales (including nonagricultural sales) to the USSR in 1982-84. However, there has been a slippage in the scale of U.S. grain sales, and the outlook does not seem bright. Table 2 reviews the data on Soviet grain imports.

The USSR became a net importer of grain only in the 1970s and a substantial purchaser only in the second half of that decade. Increases in household money income, high income elasticity of demand for meat, and the well-known deficiencies of Soviet collectivized agriculture led to a continuing deficit of grain supplies, especially feed grains. In the last years of the 1970s, the United States accounted for 75 to 90 percent of all Soviet corn purchases and 25 to 56 percent of all Soviet wheat imports.⁵ In the 1980s, however, the U.S. market share visibly declined, as Table 2 indicates. In the 1970s, roughly half the value of Soviet imports originated in the United States, but the U.S. value share now fluctuates below 40 percent, and it averaged 30 percent in 1981-85. In 1986, the cutback in Soviet grain imports, which may well have been associated with that year's bumper crop, fell disproportionately on the United States and Argentina.

The steep drop in Soviet purchases of American grain in 1986 was concentrated in wheat. Since 1984, Moscow had been increasingly reluctant to buy American wheat. The Long-Term Agricultural Agreement (LTA) concluded between the two countries in August

⁴According to the PlanEcon estimates (which are based on reported Polish and Hungarian price indexes), the price level of imported machinery dropped substantially through 1985, resulting in a higher rate of growth of real volume, 46 percent, in 1980-83. Between 1983 and 1986, there was a sharper drop in quantity (28 percent) than in value (21 percent) (*PlanEcon Report*, Vol. 3, No. 10-12, March 20, 1987, Table 1). The immediately preceding *PlanEcon Report*, No. 8-9, March 6, 1987, Table 2, estimates Soviet real imports of chemicals from non-Communist countries in 1986 as 28 percent higher than in 1980; here, too, values fluctuated and the estimated price trend is substantially down.

⁵Angel O. Byrne et al., "U.S.-USSR Grain Trade," *Soviet Economy in the 1980's: Problems and Prospects*, Part 2, Joint Economic Committee, U.S. Congress, Washington, D.C., 1983, p. 64.

Table 2

SOVIET GRAIN IMPORTS FROM THE UNITED STATES
AND ALL SOURCES, 1971-1985

Year	Volume (millions of tons)		Value (millions of U.S. \$)	
	U.S.	All Sources	U.S.	All Sources
1971-75 (avg.)	6.8	13.2	572	1,206
1976-80 (avg.)	11.5	19.9 ^a	1,476	3,024
1981	9.5	43	1,533	6,697
1982	12.5	39	1,931	6,120
1983	7.6	34	1,177	5,147
1984	17.3	44	2,582	6,816
1985	15.3	42	1,948	5,776
1986	2.5	25	266	2,789

SOURCES: For 1971-75, CIA, *Soviet Agricultural Commodity Trade, 1960-1976: A Statistical Survey*, September 1978, Tables 56 (all sources) and 77 (U.S.). For 1976-85, U.S. volume and value and all-sources value, annual issues of *Vneshniaia torgovlia SSSR*, with ruble values converted at official exchange rates (shown in CIA, *Handbook of Economic Statistics 1984*, September 1984, p. 61, and CIA, *Handbook of Economic Statistics 1986*, September 1986, p. 61). For 1976-80, all-sources volume, Angel O. Byrne et al., "U.S.-USSR Grain Trade," p. 64. For 1981-86, all-sources volume and 1986 U.S. volume, estimates of U.S. Department of Agriculture. The USDA estimates for U.S. sales alone differ from official Soviet figures, largely, it is believed, because the Soviet figures include purchases in the United States for third countries. Values for 1986 are calculated from implied prices in Wharton Econometric Forecasting Associates, *Centrally Planned Economies Service, Analyses of Current Issues*, Vol. 6, No. 15, May 26, 1987, Table 5.

^aCorn and wheat.

1983 provided for minimum Soviet purchases of 4 million tons each of wheat and corn. Moscow failed to fulfill the minimum requirement for wheat by more than 1 million tons in the LTA year ending September 30, 1985, and by 3.8 million tons in the following year. Moscow's refusal in 1986 came despite a U.S. offer of a subsidy of some \$15 per ton, an action that drew sharp criticism both at home and from overseas producers, especially Australia and Canada.⁶

⁶Norman Kempster, "Shultz Opposes Dole on Grain Sales to Soviets," *Los Angeles Times*, July 26, 1986; Eleanor Clift, "White House Says Shultz Spoke for Self in Opposing Grain Deal," *Los Angeles Times*, July 29, 1986; Keith Schneider, "President Allows Subsidized Wheat to be Sold Soviet," *New York Times*, August 2, 1986; Douglas Martin, "Canada's Dismay Over Wheat," *New York Times*, August 4, 1986; Oswald Johnston,

The Soviet refusal to meet the minimum wheat purchase two years running exploited a soft world grain market in which several producers heavily subsidized foreign sales. Thus, a French sale to the Soviet Union of 1.1 million tons of soft wheat at \$77.50 a ton in September 1986 implied a French government subsidy of \$127.50 a ton!⁷ U.S. offers were insufficient to meet the European Community competition.

In early 1987, Washington was reported still unwilling to renew the subsidy,⁸ but apparently the resistance had been overcome: After "months" of importuning by the Reagan administration, Moscow agreed in April to buy 4 million tons of American wheat, the minimum required under the LTA, at "competitive world prices."⁹ The White House thus appeared to have committed itself to whatever subsidy was required to meet the competition, since American prices in the spring of 1987 were still higher than those offered abroad. Indeed, Department of Agriculture officials were reported to have said that the Soviet deal would "represent the largest sale ever of subsidized American wheat to a single country."¹⁰ Judging from press reports, the subsidy appears to have been at least \$40 per ton,¹¹ implying a total cost to the U.S. Treasury for these 4 million tons of \$160 million or more.

SOVIET VIEWS ON TRADE WITH THE UNITED STATES

Soviet policy on trade with the United States is a subset of policy on trade with the developed West generally, but it also has specific features relating to the central political importance of the U.S.-Soviet relationship and to the special character of that trade.

East-West trade as a whole has posed a dilemma for Soviet leaders since the early days of the Soviet state.¹² The choice is essentially between relying on indigenous capabilities for rapid development and speeding the attainment of that goal by imports, especially of Western technology. Soviet Communist party rhetoric has always included a

"Soviets Break Commitment for Second Year to Buy U.S. Wheat at Subsidized Prices," *Los Angeles Times*, October 1, 1986.

⁷Johnston, "Soviets Break Commitment for Second Year."

⁸Jean Marie Brown, "U.S. Wheat Has Little Appeal for Soviets," *Wall Street Journal*, March 20, 1987.

⁹Gary Klott, "Big Soviet Wheat Deal Set at Subsidized Rates," *New York Times*, May 1, 1987.

¹⁰Ibid.

¹¹Kim Gazella, "Soviet Perceptions May Impede Farm Sales," *Journal of Commerce*, May 20, 1987; "Five Private Exporters Sell Wheat to Soviets," Ibid., May 22, 1987.

¹²This section summarizes a fuller discussion in a draft study by the author on Soviet policy in East-West Trade.

theme that justifies maximum “learning from the capitalists.” In the postwar period, that inclination was strengthened when the Soviets perceived both the inadequacies of the Soviet system for technological progress and the presence of a favorable international climate (e.g., Brezhnev’s policy in the early and mid-1970s).

On the other hand, reliance on technology imports has been periodically criticized for incurring high costs of political or economic dependence. In an earlier era, the dangers of political dependence were often identified with ideological contamination and subversion. In more recent years, the principal concern was U.S.-led efforts to exact a political price for cooperative economic relations or to wage “economic warfare” against the Soviet Union. Moscow’s drive for self-sufficiency in grain production has been explicitly justified, in large part, on these grounds.¹³ Economic dependence relates to a charge that the technology transfer process resulted in the stifling of domestic research and development in the fields of heavy transfer. The former president of the USSR Academy of Sciences, A. P. Aleksandrov, was the best known proponent of this criticism, and it has been echoed at the highest levels of the Soviet government—by the chairman of the USSR Council of Ministers, N. I. Ryzhkov, and by the man who was until recently believed to be the de facto “second secretary” of the Central Committee, E. K. Ligachev.

Gorbachev’s attitude on East-West trade is far from unequivocally positive. Although he clearly adopts world market standards as the quality level to which Soviet industry must aspire and periodically praises the “mutually advantageous international division of labor,” he has adopted Brezhnev’s autarkic grain production program.¹⁴ He has also warned Poland and, presumably, the bloc as a whole, against excessive reliance on trade with the West, and he continually stresses the priority of Soviet trade links with CMEA. As indicated in Table 1, Soviet trade with Western Europe and Japan has not prospered since Gorbachev came to power.

Soviet writings on East-West trade in the 1980s have tended to distinguish sharply between trade with the United States and trade with other Western countries. Economic

¹³In introducing the Food Program in 1982, Brezhnev declared: “The Draft [Program] proceeds from the need to reduce imports of food from capitalist countries. . . . As you know, the leadership of certain states is striving to turn ordinary commercial operations, such as grain sales, into a means of putting pressure on our country, into an instrument of political pressure. We have never put up with that, nor are we going to do so.” (*Pravda*, May 25, 1982.)

¹⁴In Tselinograd in the fall of 1985, Gorbachev declared: “We have posed the task of further increasing grain production to fully satisfy our requirements.” (*Pravda*, September 11, 1985.)

factors are generally emphasized in discussions of trade with Western Europe and Japan; commentary on Soviet-American trade most often focuses on the political barriers to further development of the two countries' economic relations. As a result, "the present-day geography of East-West cooperation is marked by Eurocentrism."¹⁵ To cite but a few examples: A 1984 article in the journal of the USA Institute, like most other Soviet articles, blames the low level of U.S.-Soviet trade and its highly asymmetrical structure largely on the United States. It concludes that "no significant increase in trade can be expected unless the United States establishes normal conditions for trade with the Soviet Union and unless there can be complete confidence that the commitments assumed by American firms will not be cancelled unilaterally."¹⁶ A December 1985 article accused the United States of seeking to "exhaust the Soviet Union economically by forcing a new round in the arms race on it" and to "deny the USSR opportunities to draw on the advantages accruing from the international division of labor, to prevent it from gaining access to the latest in Western technology."¹⁷ The difficulties in bilateral relations over half a century are attributed in another article to the reluctance of the U.S. ruling elite to acknowledge "the principle of equality in relations" and to "its desire . . . to force Moscow—even if this should require military measures—to accept American terms."¹⁸ Another author sees U.S. "economic warfare" as a major instrument in an explicitly proclaimed campaign to achieve the "eradication of socialism as a socio-political system."¹⁹ If Washington is now promoting trade in "nonstrategic" goods, the purpose is, first, to help American companies that have been shut out of the Soviet market and, second, "enlargement, so to speak, of the material basis for the policy of 'linkage,' stubbornly refusing to acknowledge its obvious ineffectiveness in relations with the Soviet state."²⁰

¹⁵Aleksandr Bykov, "East-West Business Contacts," *International Affairs* (Moscow), No. 5, May 1987, p. 45.

¹⁶O. E. Tishchenko, "Sovetsko-amerikanskaia trgovlia segodnia," *SShA: Ekonomika, Politika, Ideologiya*, No. 11, November 1984, pp. 61-68.

¹⁷Oleg Morgachev, "The Technological Blockade," *New Times*, No. 49, December 1985, p. 18.

¹⁸V. M. Berezhev, "Velikaia nauka—zhit' vmeste," *SShA: Ekonomika, Politika, Ideologiya*, No. 2, February 1986, p. 4.

¹⁹Yuri Katasonov, "Economic Warfare in U.S. Power Politics," *International Affairs* (Moscow), No. 1, January 1987, p. 105.

²⁰E. V. Prokudin, "Administratsiia Reigana i trgovlia s SSSR," *SShA: Ekonomika, Politika, Ideologiya*, No. 3, March 1986, p. 19.

The issue is partly the array of restrictions on trade with the USSR, whose origin goes back to the early days of the cold war. Moscow's principal objection is to controls on exports of high technology embodied in both U.S. legislation and the rules of the Coordinating Committee on Multilateral Export Controls (COCOM), the voluntary association of the NATO allies (except Iceland) plus Japan. The Soviets, of course, seek radical loosening of these export restrictions, along with the granting of Most Favored Nation (MFN) status and access to U.S. official credits. Another part of the Soviet complaint is directed against the U.S. practice of periodically levying sanctions against the Soviet Union in foreign policy crises. Here, Moscow's principal objective is sanctity-of-contract legislation, some of which has already been enacted (particularly with respect to agricultural commodities), that would ensure against any future replaying of such events as the 1980 grain embargo and the 1982 gas pipeline sanctions.

The imposition of these restrictions has been a barometer of the changing political climate of Soviet-American relations and, from the Soviet point of view, has contributed to the "heightening of tensions." The abolition of these restrictions, thus, would have enormous political significance. It would mean the defeat of what the Soviet media have identified as a chief instrument of the Reagan administration's alleged campaign to negate 70 years of Soviet history; and it would signify a major Soviet victory in gaining world acceptance of the principles of "peaceful coexistence," whose economic themes have been reorchestrated in the system of "international economic security."²¹ It is therefore understandable that Gorbachev's address to the December 1985 annual meeting of the American-Soviet Trade and Economic Council, attended by U.S. Secretary of Commerce Malcolm Baldrige, was frankly political. Gorbachev proclaimed that his view of U.S.-Soviet economic relations was above all political, because, first, "the main question of our relations—the question of war and peace—is decided in the field of politics," and second, although the two "economic giants" could live without trade contacts, such a state was "emphatically" politically abnormal:

In this dangerous world we simply cannot, we have no right to, ignore such a stabilizer of relations as trade and economics, scientific and technical ties. If we want really solid and stable relations of ensuring a reliable peace, their foundations must include developed business relations.²²

²¹On "international economic security," a policy device launched at the 27th Party Congress in February 1986, see Bykov, p. 38.

²²*Pravda*, December 11, 1985.

The essential message of Gorbachev's address appears to be that increased Soviet-American trade is desirable largely to the extent that it helps control the bilateral military competition. Such control is the principal theme of Gorbachev's East-West rhetoric, and it has made arms control by far the dominant component of Moscow's present-day diplomacy.

This is not to say that economics has been totally sidelined. The low level of Soviet imports from the United States, apart from grain, is often linked in Soviet writings to the Soviet Union's large bilateral trade deficit resulting from U.S. unwillingness to buy more Soviet goods. The Kremlin has not abjured imports, particularly of technology, from the West, and if recent balance-of-payments difficulties are overcome, there will most likely be higher levels of such imports. A clear party line, however, is that the major cause of these difficulties, Soviet dependence on exports of oil and gas to finance convertible currency imports, must be curtailed. The degree of Soviet dependence alone would suggest such a mood; the extraordinary volatility of petroleum prices underscores the need for change. Diluting the commodity concentration of Soviet exports means primarily expanding the embarrassingly small volume of Soviet machinery and equipment now sold for hard currency; this is the main preoccupation of current Soviet trade efforts, including the reform of Soviet foreign trade organization and the acceptance of joint ventures with capitalist enterprises on Soviet soil. The Kremlin would certainly be pleased to penetrate the American market in strength but would count its export campaign a success if it made even a significant dent in the European and Japanese markets. In any case, Moscow argues and may believe that a radical change in the political climate of U.S.-Soviet relations is required before the minuscule level of Soviet sales in the United States can be substantially raised. In the end, the economics of U.S.-Soviet trade relations is still bound up with politics.

U.S. VIEWS

In the early days of the Reagan administration, there was some intramural conflict on the subject of grain sales to the Soviet Union. The President had committed himself during the campaign to rescind the embargo levied by President Carter in January 1980. Urged on by his Secretary of Agriculture, John Block, President Reagan fulfilled his campaign promise in April 1981, against the advice of his Secretaries of State (Alexander Haig) and Defense (Caspar Weinberger), National Security Assistant William Allen, UN Ambassador Jeane Kirkpatrick, and Trade Representative William Brock.²³ Other officials may have

²³Alexander M. Haig, Jr., *Caveat: Realism, Reagan and Foreign Policy*, Macmillan, New York, 1984, pp. 81, 110-114.

been sensitive to Western European charges of hypocrisy levied in 1982 when the United States was putting pressure on its allies in connection with the gas pipeline deal. Secretary of State Shultz publicly protested the subsidization of grain sales in 1986. With these exceptions and after Haig's departure from office in mid-1982, there was no public evidence of an intra-administration cleavage on selling grain to the Soviet Union.

This was not the case with technology exports. There has, of course, been no debate on the necessity of some controls, domestic and international, to prevent leakage of militarily sensitive technology. The extent and nature of the controls, however, has given rise to an enduring dispute, in which the Defense Department's push for tighter controls has been opposed by the Commerce Department, often in association with the Department of State. The Defense Department, led in this effort by former Assistant Secretary for International Security Policy Richard Perle, has emphasized the magnitude of the Soviet campaign to obtain advanced Western technology, the benefits redounding to the Soviet military sector,²⁴ the increasing effectiveness of the U.S. and allied export control systems, and the limited costs of control in terms of damage to U.S. trade competitiveness and allied cohesion.²⁵

The Commerce Department has been more sensitive to the complaints of U.S. businessmen that the controls are all-encompassing, embracing the trivial as well as the strategically critical, ponderously slow in execution and unwittingly diverting sales to foreign competitors.²⁶ Early in 1987, these criticisms received major support from a study by a distinguished panel chaired by former Air Force Chief of Staff Lew Allen, Jr., and under the auspices of the National Academy of Sciences. The report called the administration's control efforts a costly failure. It charged the Pentagon with exaggeration of the effectiveness of the controls and minimization of their costs to the American economy, estimated in 1985 to be over \$9 billion in direct losses of sales.²⁷

²⁴See *Soviet Acquisition of Militarily Significant Western Technology: An Update*, apparently issued by the CIA, September 1985.

²⁵See, for example, Richard N. Perle, "Technology Security, National Security, and U.S. Competitiveness," *Issues in Science and Technology*, Fall 1986, pp. 106-114.

²⁶See a companion piece to Perle's article, Don Bonker, "Protecting Economic Interests," *Issues in Science and Technology*, Fall 1986, pp. 96-104.

²⁷Stuart Auerbach, "Panel Hits U.S. Curbs on Exports," *Washington Post*, January 12, 1987; Calvin Sims, "Rift Over High-Tech Exports," *New York Times*, January 14, 1987; Stuart Auerbach, "Hi-Tech Export Panel Defended by Chairman," *Washington Post*, January 15, 1987.

Two other developments in 1987 also seem relevant to this controversy. In his State of the Union message, President Reagan stressed raising the competitiveness of American industry, in the context of the unprecedented size of the U.S. trade deficit and the resultant foreign debt. Then, in the spring, the leader of the forces for strict controls, Richard Perle, resigned from the Defense Department.

Whatever the interconnections of these events, there was a noticeable movement toward the softening of U.S. controls in the first half of 1987. Restrictions on the export of oil and gas drilling equipment that had been in force since 1978 were lifted in January; the decision was taken because the controls “have lost their impact in the face of widespread foreign availability of like products.”²⁸ Commerce Secretary Baldrige took further steps to relax controls, despite DoD opposition.²⁹ The revelation of unauthorized exports in 1983 and 1984 by the Japanese firm Toshiba and the Norwegian state-owned company Kongsberg Vaapenfabrikk, which are said to have led to a significant Soviet breakthrough in designing quieter submarines, may result in some tightening of international controls,³⁰ but it seems doubtful that the trend of easing U.S. domestic restraints will have been permanently set back. The U.S. trade deficit and foreign debt are probably the most powerful influences pushing for the easing of controls, and their contribution is magnified by the perception of many Americans that Europe and Japan are increasingly convinced of the reality of Gorbachev’s “new thinking” and “restructuring” of the Soviet economy and society. From that perspective, failure to “rationalize” the U.S. controls would simply mean continued, perhaps additional, diversion of sales to overseas competitors.

²⁸Anne Swardson, “U.S. Lifts Controls on Export of Drilling Gear to Soviets,” *Washington Post*, January 16, 1987. The criterion of foreign availability was one of the central features of the Export Administration Act, adopted in 1985 after three years of debate.

²⁹Eduardo Lachica, “Reagan Plan to Ease Export Policies Would Aid High-Technology Producers,” *Wall Street Journal*, February 6, 1987; Hugh Vickery and James M. Dorsey, “Baldrige Riles Defense Again with Vow to Ease Export Rules,” *Washington Times*, February 10, 1987; Karen Riley, “Review Set on Export of Low Technology,” *Washington Times*, February 27, 1987; Tim Carrington and Robert S. Greenburger, “Pentagon’s Firm Control Over Export Licenses May Lessen in Face of Politics, Big Trade Gaps,” *Wall Street Journal*, March 13, 1987.

³⁰Eduardo Lachica, “U.S. Asks Allies to Curb Exports to Soviet Union,” *Wall Street Journal*, June 22, 1987.

No wholesale dismantling of the control system is in the offing, however. The Toshiba-Kongsberg Vaapenfabrikk case demonstrated that the problem of leakage of militarily significant technology is real. The angry reaction of the American Congress and media showed that the core of the control system enjoys solid public support. The debate will continue to be over how much pruning (or selective addition, as the occasion may warrant) is required.

PROSPECTS

Soviet-American trade now consists largely of U.S. exports of grain, so any consideration of trade prospects should begin there. As of mid-June 1987, it appeared that U.S. exports might reattain a one-third share of all Soviet grain imports.³¹ Over the longer term, however, the likelihood of returning to the trade levels of the late 1970s seems small. The Reagan administration is pressing for worldwide elimination of subsidies in agricultural foreign trade, presumably being confident that the United States has a significant comparative advantage in farm production. But such an ambitious outcome is unlikely to come easily, if at all, and subsidies will probably continue to play some part in the international grain market.

More important factors are those relating to Soviet plans. Even if the LTA, which expires in the summer of 1988, is renewed, it is unlikely that Soviet purchases will be sharply expanded. The USSR now has a network of multi-year agreements with other major producers (for example, the Soviets signed a five-year agreement with Canada in December 1985 to buy at least 25 million tons of grain during the five years ending July 31, 1991³²). Since the 1980 embargo, Soviet rhetoric has emphasized limiting dependence on the United States. In fact, at no time in the 1980s has the U.S. share of Soviet grain purchases exceeded 40 percent, and in most years it was 33 percent or less. Moreover, the USSR has now enjoyed two favorable harvests, and a third is expected in 1987. This has probably emboldened Moscow's expectations. The Food Program initiated by Brezhnev, with its distinctly autarkic component, has been continued by his successors. Gorbachev has added

³¹Soviet grain purchases from all sources for the marketing year ending June 30, 1987, were forecast earlier that month to be 30.5 million tons. As of June 9, the Soviets had contracted to buy more than 8 million tons for delivery through September 30 (*Journal of Commerce*, June 11, 1987, p. 6A).

³²John Urquhart and Peggy Berkowitz, "Canada Reaches 5-Year Grain Pact with Soviet Union," *Wall Street Journal*, December 6, 1985.

the yeast of economic reform and reorganization. It is not surprising, therefore, that Soviet officials declare one important goal of their agricultural program to be grain self-sufficiency. Recently, the head of the Soviet agro-industrial complex and First Deputy Chairman of the USSR Council of Ministers, Vsevolod Murakhovsky, predicted that within five years the Soviet Union would be able to feed itself without recourse to imports.³³ One need not ignore the failures of the past and take such boasts on faith to suggest that the Soviet effort is increasingly to limit the USSR's dependence on the world market in general and the U.S. market in particular.

The other major issue is that of Soviet imports of machinery and equipment. If we assume that export controls on sales to the USSR will be substantially eased in the next few years, how likely is a sharp upturn in Soviet technology imports from the United States? With purchases of machinery and equipment now running under a quarter of a billion dollars a year, it would not require much of an absolute rise to yield a large percentage growth. But large absolute increases would raise the question of Soviet balance-of-payments constraints.

The softening of oil prices on the world market after 1981 that culminated in their abrupt drop in 1986 and the sagging value of the dollar have sharply reduced Soviet convertible currency earnings. The Soviet hard currency trade balance was positive and about \$4.5 billion strong annually in 1982-84 but fell to \$1 billion in 1985.³⁴ In fact, in 1985 the Soviets had a trade deficit with the West that was counterbalanced by sales (including, prominently, arms) to developing countries. The trade deficit with the West deteriorated considerably in 1986 but was salvaged by an improvement in the balance with developing countries that resulted from greatly increased arms sales.³⁵ Selling gold and borrowing from the West are the two other main props of the Soviet hard currency balance, and the Soviet Union was forced to do more of both in 1986.

Because of the fragility of this structure, with its heavy reliance on the sales of oil and gas, Moscow is attempting to expand machinery exports to hard currency markets. Similar efforts have failed in the past, and although Gorbachev seems more determined than his predecessors, success, if it comes, is likely to be slow. In the United States, as the Soviets frequently remind us, the denial of MFN status maintains an additional obstacle in the

³³UPI report cited in Radio Liberty, RL 112/81, March 20, 1987. Radio Liberty (or UPI) misidentifies Murakhovsky as a USSR deputy minister of agriculture.

³⁴CIA, *Handbook of Economic Statistics 1986*, September 1986, p. 74.

³⁵*PlanEcon Report*, Vol. 3, No. 16, April 17, 1987; WEFA, *Centrally Planned Economies Service, Analysis of Current Issues*, Vol. 6, No. 15, May 26, 1987.

growth path of Soviet exports. Considering the political restrictions on trade with the USSR, there appears to be a much lower ceiling on the possible easing of controls in the United States than among its industrial allies. This suggests that Moscow will have strong political as well as economic incentives to continue regional diversification in capital as much as in food imports.

In the longer run, there may be changes in Soviet economic policy significant enough to transform the current trade picture. Domestically, the Gorbachev regime's economic reform is more ambitious than would have been predicted when he was appointed General Secretary in early 1985. There is talk now of eventually making the ruble convertible against foreign currencies. Should attempts be made to implement some of these more radical proposals, trade volumes and trade patterns could be substantially changed. Perhaps most important, the climate of East-West relations would be affected, and this could have profound effects on trade. But we are now in the realm of speculation.

