

# UNIVERSITY OF ILLINOIS

MAY 12 19 82

THIS IS TO CERTIFY THAT THE THESIS PREPARED UNDER MY SUPERVISION BY

DAVID WILLIAM WACKROW

ENTITLED THE FORMULATION OF SOVIET-AMERICAN TRADE POLICIES

IS APPROVED BY ME AS FULFILLING THIS PART OF THE REQUIREMENTS FOR THE

DEGREE OF BACHELOR OF ARTS

*Edward Halvorson*  
Instructor in Charge

APPROVED: *Richard Meuth*

HEAD OF DEPARTMENT OF Political Science

**UNIVERSITY OF ILLINOIS**

MAY 12..... 1982.....

THIS IS TO CERTIFY THAT THE THESIS PREPARED UNDER MY SUPERVISION BY

DAVID WILLIAM WACKROW

ENTITLED THE FORMULATION OF SOVIET-AMERICAN TRADE POLICIES

IS APPROVED BY ME AS FULFILLING THIS PART OF THE REQUIREMENTS FOR THE

DEGREE OF BACHELOR OF ARTS

Edward H. Rubin  
Instructor in Charge

APPROVED: Richard Nantz

HEAD OF DEPARTMENT OF Political Science

THE FORMULATION  
OF  
SOVIET-AMERICAN TRADE POLICIES

BY  
DAVID WILLIAM WACKROW

THESIS  
FOR THE  
DEGREE OF BACHELOR OF ARTS  
IN LIBERAL ARTS AND SCIENCES

COLLEGE OF LIBERAL ARTS AND SCIENCES  
UNIVERSITY OF ILLINOIS  
URBANA, ILLINOIS

1982

This thesis is dedicated to Arnold and Dorothy Wackrow, my parents. Their pride inspired me to complete this thesis against all odds.

## PREFACE

When I began my studies as an undergraduate, I had no idea what was in store for me. I thought college was going to classes, writing papers, and taking exams. Nevertheless, four years later and about to have a degree with two major fields of interest, international relations and international economics, bestowed upon me, I realize that college is much, much more. The experiences of college should not be limited to the classroom and to books. I wholeheartedly feel sorry for those students (and I feel there are many of them) who can never let themselves experience the people and their ideas beyond the classroom.

However, this is not answering why The Formulation of Soviet-American Trade Policy was written. I feel this thesis is the culmination of my classroom experiences and learning. I have avidly, and with much pleasure, studied many areas of international relations and find this aspect most fascinating.

I feel that the political relations between the Soviet Union and the United States reflect the most important area of international conflict. These nations alone have Armageddon at their disposal. While, at the same time, they also have the power to bring about more peaceful relations to the world as a whole, if they so desire.

Then why not limit my discussion to the political

strife between the two nations and leave international commerce out of the discussion? For two reasons: 1) the U.S.-S.U. also have two most contrasting economies of comparable size and the interaction of those differences have interesting ramifications. 2) The question of interdependence brings, to me, the ultimate hope of world peace. I believe this because of the motivating factors of economics. That is to say, once interdependence is established the two nations will find it almost impossible to disengage without causing severe havoc on their economies. Once settling their economic problems the nations will find it easier to maintain normal relations causing less uncertainty throughout the world.

I suppose this argument is open to much criticism. However, returning to what college has taught me: there would not be any change in this world if men did not pursue their ideals and goals. My commencement gives me this chance with better understanding.

DW

May 12, 1982

## TABLE OF CONTENTS

	Page
<b>INTRODUCTION . . . . .</b>	<b>1</b>
<b>CHAPTER ONE</b>	
<b>HISTORICAL PERSPECTIVES ON TRADE . . . . .</b>	<b>6</b>
Post World War I and Stalin . . . . .	7
Cold War Trade . . . . .	10
The Beginnings of Normalization . . . . .	12
Summary . . . . .	16
<b>CHAPTER TWO</b>	
<b>SOVIET-AMERICAN INFRASTRUCTURE OF TRADE . . . . .</b>	<b>19</b>
American Trade Formulation . . . . .	19
Governmental Proponents of Trade . . . . .	20
Private Proponents of Trade . . . . .	24
Governmental Opponents of Trade . . . . .	25
Private Opponents of Trade . . . . .	28
Summary . . . . .	30
<b>CHAPTER THREE</b>	
<b>THE SOVIET UNION'S TRADE INFRASTRUCTURE . . . . .</b>	<b>32</b>
Trade Reform . . . . .	36
Problems in Trade . . . . .	36
Summary . . . . .	37
<b>CHAPTER FOUR</b>	
<b>THE SOVIET AGRICULTURAL SYSTEM AND ITS POLICIES . . . . .</b>	<b>40</b>
The Agricultural Economy . . . . .	41
Administrative Problems . . . . .	45
Consumer Satisfaction . . . . .	47
Summary . . . . .	48
<b>CHAPTER FIVE</b>	
<b>SOVIET-AMERICAN GRAIN TRADE . . . . .</b>	<b>51</b>
Great Grain Robbery . . . . .	52
1975 Grain Agreements . . . . .	55
The Grain Embargo . . . . .	56
Summary . . . . .	59
<b>CHAPTER SIX</b>	
<b>U.S. TRADE POLICY IMPLICATIONS . . . . .</b>	<b>62</b>
Policy Recommendations . . . . .	64
The Realities of Interdependence . . . . .	69
Conclusions . . . . .	71
<b>APPENDICES . . . . .</b>	<b>73</b>
<b>BIBLIOGRAPHY . . . . .</b>	<b>80</b>

# THE FORMULATION OF SOVIET-AMERICAN TRADE POLICY

## Introduction

Perhaps no single topic of contemporary world affairs has generated more public debate than East-West relations. The division of the world into a bipolar antagonistic relationship between the United States and the Soviet Union after World War II set the stage for political conjecture in every walk of life. While most of the discussion has revolved around the shadow of the twentieth century—nuclear arms, there exists an equally important issue for the maintenance of world peace—East-West commerce. Although this aspect may appear rather anticlimactic in the light of nuclear conflagration, it is a stable world economy that has the prophylactic effect on peaceful relations. Senator Walter D. Mondale explicated this view in 1974:

While the major international security issues of the last quarter century are still with us . . . these are now being overshadowed by the risk that the international economy may spin out of control. For if this happens there will be no graver threat to international stability . . . and to national security itself.<sup>1</sup>

Therefore, this thesis, given the above to be true, will analyse the issues of East-West trade, limiting the scope of the topic to Soviet-American trade. The reasons for



this limitation are simple. First, the United States and the Soviet Union are the primary actors in East-West relations. Second, it is easier to maintain conciseness and clarity with only two actors. However, this does not imply that related relevant issues will not be pursued, such as Allied support for economic policies, but rather they will be secondary. Third, significant parallels may be intuitively drawn from Soviet-American commerce to the entire scope on international trade such as East-West trade.

Despite the cries of the last two decades there has been little improvement in trade relations between the United States and the Soviets. The Kissinger linkage policies and the hopes of interdependence as a method for furthering detente have fallen into the past, while a new method is becoming the strong-arm of America's foreign policy: economic sanctions. The imposition of these sanctions or embargos has changed America's diplomatic style in dealing with the Russians. It is this change of style that has caused much controversy among analysts of policy. Indeed the political and moral crises of Afghanistan and Poland warranted public chastisement by American and world leaders. However, the imposition of sanctions for these acts must be questioned for several reasons. While sanctions gave the actions taken by Presidents Carter and Reagan more impact and credibility, the costs on the American economy must be considered. Especially when the support or lack thereof of our allies is taken into account. It is this increasing use

of America's economic processes that will be the overriding issue of this treatise.

This thesis will not examine whether or not trade with Russia should exist, for it is my opinion that trade is vital for the growth of the American economy, but rather, to which ends the American government should limit trade. Presently, the United States holds the absolute and comparative advantages on three commodities over the rest of the world, sophisticated weapon technology, computer technology, and agricultural productivity and output. Clearly, the first two have national security limitations attached to them in trade potential. However, the third, agricultural output, is of major consequence to the United States due to recent surplus harvests and Soviet agricultural failures. There can be no argument that trade be denied on a national security basis in times of peace. Therefore, several questions need to be answered: 1) Does the United States have the right to restrict trade on political grounds? 2) Should the United States impose sanctions when the Soviet Union is acting in their historic sphere of influence? 3) Can the use of food as a means of implementing political change be morally justified?

Through this brief introduction it has been demonstrated that the imposition of trade sanctions or embargos on the Soviets is at the least problematic. Therefore, this thesis will attempt to analyze the entire scope of trade relations emphasizing the grain embargos of the recent past.

It would be hopeful that the benefits of America's newest weapon outweigh the cost on the economy, however studies have increasingly shown this not to be true. Therefore, the goal of this treatise is to develop a consensus opinion that Soviet-American trade is needed and necessary. Then, in the end, policy recommendations will be made for a new course of action regarding trade with the Soviet Union.

In order to fulfill this objective this paper will be comprehensive in its discussion. It will chronologically analyze the historic precedents of trade and its role in the formulation of policy. The infrastructures of trade, both the American and Soviet, will be analyzed to demonstrate how policy is presently developed. The Soviet agricultural system will also be analyzed to demonstrate why agricultural trade is so significant. The grain trade and its agreements will also be discussed debating the costs and benefits to the American economy. Finally, a chapter on trade policy and its role in furthering detente will be proposed.

## Notes

<sup>1</sup>Walter F. Mondale, "Beyond Detente: Toward International Economic Security," Foreign Affairs (October 1974), p. 1.

## CHAPTER 1

### HISTORICAL PERSPECTIVES ON TRADE

To comprehend fully the policies of Soviet-American trade, one must understand the pertinence of historical precedents of trade in the Russian economy. Throughout history Russia has maintained a technologically backward agrarian society.

The advent of modern Russia occurred shortly after the Napoleonic Wars and during the next hundred-odd years great changes took place. Technology was once again introduced from the West by the Tsars, especially Tsar Alexander, who gave the serfs land for the first time.

The establishment of common land owners and Russia's equivalent to the Western industrial revolution were great strides in bringing the country onto a par basis with all aspects of Western civilization. However, a level of parity with the West was never attained prior to World War One. The destruction of the World War and the subsequent civil war after the Bolshevik seizure of power, during the October Revolution in 1917, had devastating effects on the economy. The Russians were forced to rebuild their nation with help from the West. This brief synopsis of Russian importation of Western technology demonstrates what is still a major motivating factor in Soviet trade with the United States:

the importation of technologically superior goods.

### Post World War I and Stalin

The following section will examine the pattern of trade between the Soviet Union and America from the beginning of the 1920s to the era of detente. It should be noted that most of the trade between the two countries was, though very limited, definitely controlled by the vastly economically superior United States and many of the Soviet policies, though hidden in rhetorical propaganda, were reactions to America's plans and policies. "Thus to achieve self-sufficiency in the modern world it was first necessary to accelerate Russia's own industrialization. To accomplish this, however, partial 'dependency' on foreign nations and foreign technology became necessary."<sup>1</sup> The importation of American technology, including entire factories, and relief aid were a major source of the Soviet's recovery plan funding. This plan, called NEP (New Economic Policy), proposed the rebuilding of the economy through technology importation. Stalin, who came to power during this period, as did his predecessors, saw this importation as a necessary evil and only to be used until the economy could be free from the capitalistic West. According to Albert L. Weeks in The Other Side of Coexistence, the Soviets received from America, during this period, under the American Relief Administration (ARA) a "staggering (for that time) \$66.3 million"<sup>2</sup> of food-stuffs and other assistance. After the formulation of the

first five year plan, Soviet purchases of American technology expanded tremendously, and from 1926 purchases went from 96 million rubles to 207 million rubles in 1930. Purchases then fell in the next two years to 25 million rubles. The primary reason for this curtailment of trade was the fact that the Soviets found themselves in a severe economic depression, along with the rest of the world, and were unable to pay for these purchases from the West. However, to disguise the true reasons for this reduction, the Soviets responded with a rash of trials for sabotage and "wrecking of the economy" against foreign technicians, specialists, and engineers, and had them removed from the country for national security reasons.<sup>3</sup> This removal of technicians coincided with the beginning of Stalin's consolidation of power during the Great Purge of the late thirties (when millions lost their lives to Stalin's xenophobia) and he did not want any interference from foreigners.

The thirties also saw a significant change in other aspects of the Russian economy. When Stalin forced the collectivization of private agriculture into Collectives (kolkhoz) and State (sovkhoz) farms the burden on the farmers became even greater. In addition to losing their family farms and plots, the support or costs of the forced industrialization was also shouldered by the Soviet farmers. Consequently, millions of Russians died of starvation in the early thirties. The irony of this horror was the Soviets from the late twenties through the early forties exported

their grain, sometimes in amounts greater than they imported.<sup>4</sup> All in all, Stalin's economic plans and fears brought the Soviet Union into a state of autarky. For example, "In 1937, exports and imports each amounted to only less than one-half of one percent of the gross national product, compared to ten to twelve percent before the revolution."<sup>5</sup>

The United States Congress in 1934 passed the Johnson Debt Default Act, which prohibited the extension of credits or loans by any private American bank or corporation to any country which had defaulted on their World War debts to the United States. However, this Act did not apply to federal government loans or credits extended to the offending nations. Since the Soviet Union had defaulted on their loans, this piece of legislation became the basis for restricting trade with the Soviets. It should be noted that the Act was not unilaterally enforced, but rather served as a political tool in the formulation of American foreign trade policies with the Soviets. Later, when the Soviets defaulted on their Lend-Lease debts of World War II, which totaled to more than \$11.0 billion owed to the United States alone, the Act was again enforced to prohibit any loans to the Soviets. After much internal debate in the State Department, writes Richard Barnet in The Giants: Russia and America:

The Russians were invited to participate in the Marshall Plan for the recovery of Europe in 1947, but the terms were such as to make it inevitable that Stalin would decline. The United States, not wishing to subsidize the consolidation of Soviet



power in Eastern Europe, insisted on controlling how the money was to be spent. But the last thing Stalin was prepared to accept was the assertion of American political influence in his newly acquired empire, and the Soviets withdrew from the Marshall Plan.<sup>6</sup>

From this point on, the United States used its economic might in its containment policy for the Soviet Union.

### Cold War Trade

It was this period that the United States was the greatest power in the world, economically, as well as militarily, and its policies were directed at the complete isolation of the Soviet Union. The Export Control Act of 1949 and the Mutual Defense Assistance Act of 1951, usually referred to as the "Battle Act," were passed to prevent the exportation of anything which had potential military or strategic value to the Soviets. The countries which were involved in the Act were members of the Consultative Group Coordinating Committee (COCOM), whose existence was also established under the Act. The member countries were the United States, the European Economic Committee, and Japan. Also, in 1951, Congress withdrew the Most Favored Nation (MFN) status from the Soviets, although at this time trade was already heavily restricted. However, this action did become important in future trade negotiations.<sup>7</sup>

Trade during the Cold War era was never for economic benefit, but rather was a political tool used to manipulate the other into a concessionary response. The Russia autarkic

state from the Western world, under Stalin, only proved the Soviet leader's resolve to remain independent from the world economy. Nevertheless, Stalin did make conciliatory gestures in 1951 conveying the impression that the Soviet Union had outgrown autarky. Under this theme, the Soviets invited many Western businessmen to a foreign trade convention in Moscow during April 1952. However, it was of little consequence as the United States controlled exports so effectively that they prohibited the opening of Soviet and East-bloc markets to American business.<sup>8</sup>

There were many reasons for the decline of trade in the fifties, many of which were more pragmatic, than political, in nature for the Soviet Union. First, the reconstruction of Europe after the war on both sides caused a severe financial drain on the more devastated economies of Eastern Europe and Russia. Hence, the Soviet Union because of balance of payment problems was forced to curtail trade with the West. Second, the Marshall Plan, as mentioned above was unacceptable to Stalin, thereby causing a natural migration of trade within each bloc.<sup>9</sup> Although trade between the Soviets and America remained virtually nonexistent in the late fifties, America's allies, in seeking new markets, began to trade at this time with the East, much to America's chagrin. This trade became quite significant for it caused increased domestic pressure in the United States to remove restrictions and open trade with the Soviet market.

In analyzing Nikita Krushchev's international trade

policies with the West, a complete reversal from the autarkic state was evident. A few months after securing his power base in 1956, Khrushchev and Bulganin set out on an "offensive of international amicability" which reduced tensions between Western Europe and the Soviets. However, the United States still remained unrelenting in their opposition of trade development. In June 1958, and again in 1959, Khrushchev and Mikoyan proposed that the Soviet Union and America expand commerce under a comprehensive trade agreement; "peaceful commodities,"<sup>10</sup> agricultural commodities. The United States showed little interest in such expansion and the entire attempt by the Russians fell through.<sup>11</sup>

Khrushchev's motives for opening trade with the West were partially in response to domestic economic reforms. These reforms were heavily influenced by his desire to consolidate his political power base. This was possible because he reorganized the economy into many smaller industrial regions, thereby removing his opposition within the party from Moscow to control these peripheral areas. Needless to say, his ideas were influenced by the Liberman economic reform proposals. These proposals by Liberman called for a reduction in economic central planning; these proposed changes became official policy in 1962.<sup>12</sup>

### The Beginnings of Normalization

The early sixties saw no immediate change in the status of Soviet-American trade especially in light of the

political trouble between the two countries, i.e., Gary F. Powers and the U-2 incident, the Berlin Wall, the Bay of Pigs invasion, and the Cuban Missile Crisis. After these tensions subsided, trade began a gradual up-swing as the United States permitted some trade with the Soviets. In 1963 Russian agriculture suffered a severe crop failure which caused them to seek massive grain purchases on the world market. Since the United States was the principle supplier of grain on the market, the Soviets were forced to make purchases of 10 million tons from them and Canada. These purchases were possible because the United States Supreme Court ruled that Eximbank short term loans, less than 90 days, which the Soviets needed to purchase grain, were exempt under the law.<sup>13</sup> This purchase of grain was unlike those of the Stalin era when grain was exported at a rate greater than imports, regardless of the impact on the economy and state of people's welfare. Khrushchev made reference to this, pointing to the fact that for the first time, in 1963-64, imports exceeded exports at a substantially higher rate and that no Russians were dying of starvation. Ironically, in spite of massive purchases from the United States, the Soviets refused to import enough grain to meet their needs. Consequently they were forced into an early slaughter of their pig herd, reducing the herd size by forty percent, from 70 million head to 42 million.<sup>14</sup> The probable reason for this was that the cost of grain was prohibitively high for the Soviets to justify greater hard

currency outflows. However, Soviet ideology maintained that they were yet free from any economic dependence on the rest of the world. Nevertheless, this independence from the capitalists was changed shortly after when the Soviets decided to up-grade their standard diet and increase overall meat consumption. This could only be achieved through a dependence of Soviet agriculture imports of grain from the United States.<sup>15</sup>

After the ouster of Khrushchev in 1964, Brezhnev and Kosygin set Russia back on the road of strict economic control. The Liberman economic reforms were removed from the economy and new policies were implemented to revamp the incentives to produce. The economic changes could be classified as a commitment to the consumers, the expansion of research and development, and increases in productivity and efficiency. Trade with the United States during the next few years grew slowly. The outcry of American businessmen placed increased pressure on U.S. policy-makers to open up trade with the communists. During the next few years until the Export Administration Act of 1969, which removed restrictions from exportation commodities that were not of military value, and subsequently, trade between the two superpowers broadened significantly. After this period, there were major revisions in the restrictions on foreign trade; the Export Expansion Act of 1971 raised the ceiling on Eximbank loan guarantees from \$3.5 billion to \$10.0 billion and all financial activities with the Soviet Union to \$20.0 billion.<sup>16</sup>

This was a drastic change in comparison to the restrictions on the Export-Import Bank during the Cold War, when almost no trade loans or credits existed. The Equal Export Opportunity Act of 1972 provided the legal framework for present export control. This Act regulated exports and imports in three ways.

First, special products, controlled for security reasons, must be approved for export by a governmental committee from the Departments of Commerce, Defense, State, and Treasury; from other agencies which may declare special interest. Second, when government credits or guarantees are sought through the Export-Import Bank or the Commodity Credit Corporation, special approval of the government portion of the financing must be guaranteed. Third, if complaints are lodged with the federal government on trade disruption, or dumping, provisions for restricting imports may be brought into force.<sup>17</sup>

Prior to 1972, United States trade with the Soviet Union had been considered mostly negative and was most definitely controlled by the United States because its economy was much stronger. The United States and the West did impose economic sanctions on Russia and the East, however, these sanctions were due to U.S. control of the international economic situation and in the late fifties its influence over its allies waned considerably. After this time, Europe and Japan began to increase trade with the Soviets and the East bloc much to America's dismay because it signaled the end of America's dominance of their economies. Consequently, America during the Johnson Administration

soon realized that the opportunities offered through trade with the communists were immense and international commerce slowly began to increase until 1972. The Nixon-Brezhnev May summit meeting and the October grain agreement of 1972 moved trade into a period which could be described as positive. At this point, America and the Soviets signed a series of trade agreements along with cooperative agreements in other areas. The major obstacle in signing the agreements was the settlement of the Soviet Union's World War II Lend-Lease debts, "the Americans refusing to take less than \$800 million and the Soviets refusing to offer more than \$300 million."<sup>18</sup> The issue was settled when the Soviets agreed to pay \$722 million in annual installments of \$24 million until the year 2001 and the American's offer to reinstate MFN status by 1975. Nevertheless, in 1975 the Soviets annulled the trade agreement for several reasons such as the Jackson Amendment. This was the era of detente, the relaxing of tensions in all areas of interaction between the two nations.

### Summary

This section on the historical perspective of Soviet-American trade, hopefully, demonstrated the major issues of international commerce and how it was governed, implemented, and maintained. Political ideology played the prominent role in trade relations as it did in all areas; the situation remains quite similar, but instead, the elements of detente have replaced those of confrontation. The needs

basically continue: the Soviets seek the importation of Western technology and agricultural commodities, while America is seeking a favorable trading partner to help in its balance of payments deficit and agricultural surpluses.



## Notes

<sup>1</sup>Albert L. Weeks, The Other Side of Coexistence (New York: Pitman Publishing, 1970), p. 99.

<sup>2</sup>Ibid., p. 130.

<sup>3</sup>Joint Economic Committee, Soviet Economy in a New Perspective (Washington, D.C.: Government Printing Office, 1974), p. 85.

<sup>4</sup>USSR Agriculture Atlas (Central Intelligence Agency, December 1974), p. 6.

<sup>5</sup>Joint Economic Committee, p. 84.

<sup>6</sup>Richard J. Barnett, The Giants: Russia and America (New York: Simon and Shuster, 1977), p. 133.

<sup>7</sup>Connie M. Friesen, The Political Economy of East-West Trade (New York: Praeger Publishers, 1976), p. 21-22.

<sup>8</sup>Franklyn D. Holzman, International Trade Under Communism (New York: Basic Books, 1976), p. 138.

<sup>9</sup>Ibid., p. 136-137.

<sup>10</sup>Adam B. Ulan, The Rivals (New York: Viking Press, 1971), p. 227.

<sup>11</sup>Holzman, p. 140.

<sup>12</sup>Ibid., p. 111.

<sup>13</sup>Freisen, p. 156.

<sup>14</sup>Joint Economic Committee, p. 87.

<sup>15</sup>Robert L. Paarlberg, "Lessons of the Grain Embargo," Foreign Affairs (Fall 1980), p. 158.

<sup>16</sup>Freisen, p. 23.

<sup>17</sup>John P. Hardt, George D. Holliday, and Young C. Kim, Western Investment in Communist Economies (Washington, D.C.: Government Printing Office, 1974), p. 17-18.

<sup>18</sup>Holzman, p. 166.

## CHAPTER TWO

### SOVIET-AMERICAN INFRASTRUCTURE OF TRADE

This section of the essay will focus on the separate systems, or infrastructures, of trade within which American-Soviet trade functions. These systems include the American system, the Soviet system, and the international system and how they all interact to bring about international trade.

#### American Trade Formulation

The American system, or infrastructure, of foreign commerce with the Soviet Union is a complex set of special interest groups, as Connie Friesen explains in The Politics of East-West Trade:

Accompanying the various twists and turns of the trade legislation itself has been a broad domestic debate. The protrade lobby has included American agricultural interests, corporations hoping to sell products to the Soviet Union or to participate in Soviet Development projects, and the Treasury, Commerce, and Agriculture Departments. It has also included Eximbank and large private banks. An antitrade lobby has comprised labor groups, and congressional groups, including the administrative arm of Congress, the General Accounting Office (GAO).<sup>1</sup>

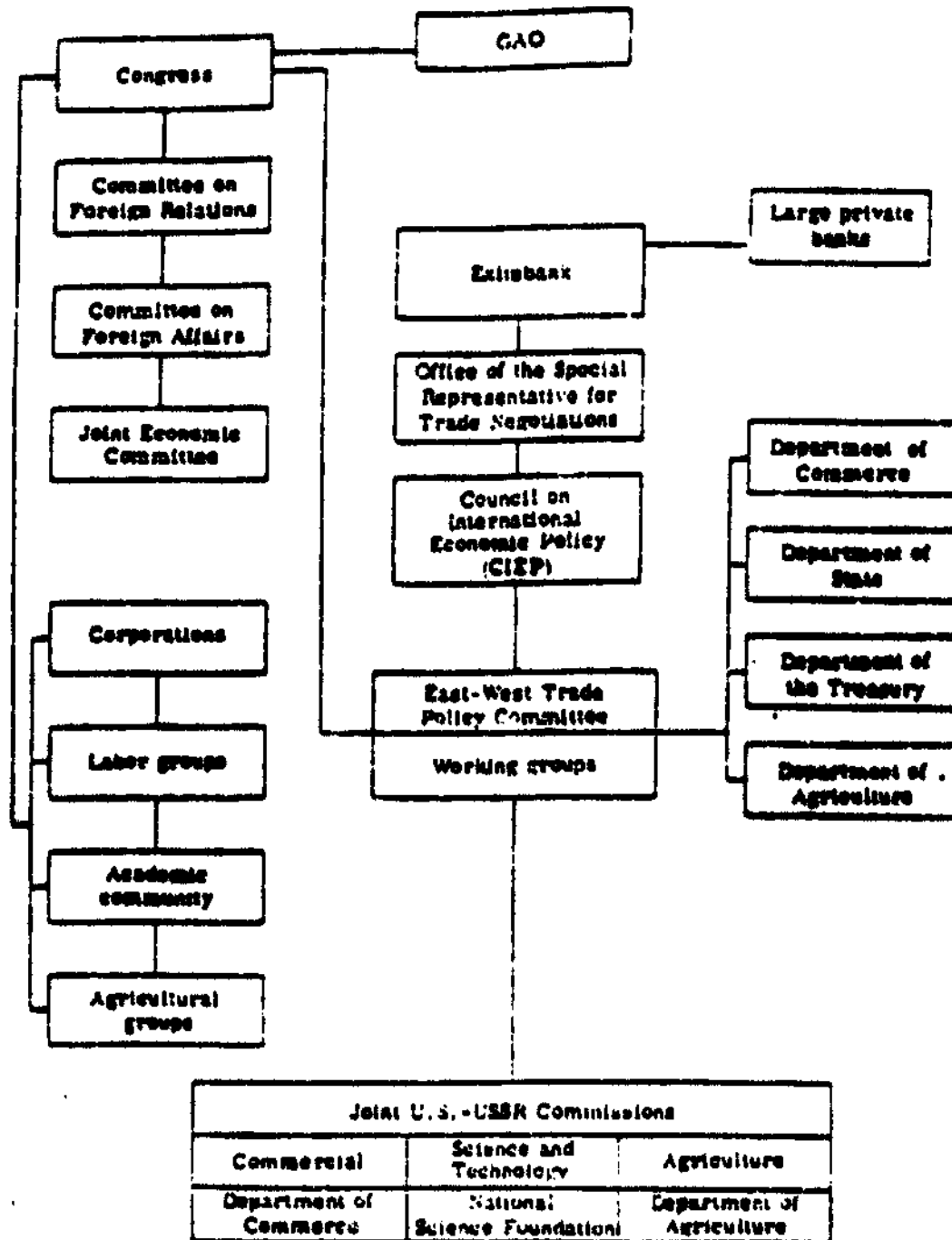
These groups, through interaction to further their self-interest and needs, formulate the United States international trade policies. America's policies of trade with less developed countries and the East bloc have been to induce the

values and ideologies, e.g., Jackson Amendment, of the country, through the granting of economic assistance, to nations accepting our democratic philosophy or yielding to other areas of our foreign policy. One can develop through this understanding of American ideology the problems that can occur when trade is based on such a presumption. Nevertheless, trade does exist, to whatever the degree. Therefore, in the United States there are forces opposed and in favor of international trade with the communist states. These groups may be divided into governmental and private advocates and opponents of East-West Trade (see Graph 1).

#### Governmental Proponents of Trade

Within the governmental proponents many different groups are jockeying for prominence in achieving their goals. The Departments of Commerce, State, Defense, and Treasury as well as special interest groups make up the East-West Trade Policy Committee. This committee was formed in the spring of 1973 to reduce and reconcile the amount of interdepartmental disagreement on policy. Its function is to review the major transfers of technology, all government credits for exports above \$5.0 million, and to submit a quarterly report to Congress on the state of East-West trade. A complementary committee is the White House's Council on International Economic Policy (CIEP), which reports to the Administration on East-West trade.

The East-West Trade Decision-Making Process in the United States



Graph 1: Taken from Connie M. Freisen, Political Economy of East-West Trade, p. 26.

The Bureau of East-West Trade (BEWT), within the Department of Commerce, implements all of the nation's East-West trade policies. It also serves as the Executive Secretariat for the U.S.-U.S.S.R. Joint Commercial Commission. The emphasis of the BEWT recently has been pro-trade in nature, contrary to the 25 years of negative trade policy with the Soviet Union. The bureau is divided into four divisions, each divided into sub-offices governing a different aspect of international commerce.

Office of Export Administration (Scientific and Electronic Equipment Division, Capital Goods and Production Materials Division, Compliance Division, Operations Division, etc.);

Office of Joint Commission Secretariats;

Office of East-West Trade Analysis (East-West Trade Analysis Division, East-West Trade Policy Division);

Office of East-West Trade Development (Eastern European Affairs Division, People's Republic of China and Other Asian Areas Division, Trade Development Assistance Division, USSR Affairs Division, Trade Promotion Division).<sup>2</sup>

The State Department has three offices which conceptualize many aspects of East-West trade development; they are: the Office of Soviet Union Affairs, Office of East European Affairs, and the Office of East-West Trade. The primary function of the State Department is international political affairs. Since much of the trade involving the Soviet Union can be directly attributed to political foundations, its function is well maintained in the formulation of trade policies.

The Export-Import Bank, which controls governmental loans and credits, holds a principal position in the development of trade policy. Eximbank, like the State Department, is concerned with the political affairs of the two countries. However, it is torn between wanting to stimulate trade loans and credits, thereby increasing its role in the decision making process or staying in line with American foreign policy. However, the Soviet rejection of the Joint Trade Agreement in 1975 because of U.S. interference in their internal affairs with linkage policies, caused a reduction in the amount of influence in decisions by Eximbank. One such "linkage" policy was the Jackson-Vanik Amendment of 1974 which linked trade cooperation with the emigration of Soviet Jews. Another concern of Eximbank is competition from Western Europe's and Japan's central banks and other governmental lending institutions. They fear that these governmental loans will cause a loss of potential business from the Soviet Union and other Eastern countries for American industry. Eximbank public relations have been exacting in their justifications for trade with the Soviets, explaining the benefits from specific deals; included in these reports, are overall costs to the U.S., environmental aspects, jobs provided, and balance of payment advantages. These exacting justifications seem to be a method of self-preservation in the wake of controversy of loan extension to the Soviets.

### Private Proponents of Trade

The nongovernmental advocates of trade include, for the most part, corporations and large banks, which are excited at the prospects of opening up a huge untapped market for American goods and services. Corporations, such as Control Data, dialectically build a strong argument for advancing trade with the U.S.S.R. and the East bloc. Their representatives travel to the Soviet Union developing good business relationships with the Soviet Ministry of Foreign Trade and the respective Foreign Trade Organizations (FTO). These arguments emphasize that technology ~~transfer~~, something that the U.S. government opposes, on a national security basis, can only benefit America. ~~They argue that~~ technology sold to the Soviets is of commercial ~~importance~~ only and has little adaptive military value. ~~Furthermore,~~ the technology is available from our Western allies at competitive prices. Therefore, the U.S. is playing ostrich, when ignoring the possibilities of trade. Control Data concludes its view

with respect to business in the Soviet Union is the necessity to have technology flowback. Control Data is interested in long-term cooperative ventures involving a flow of technology to the United States . . . in education and medicine.<sup>3</sup>

Another enticing argument by the corporations, especially for the government in this time of high unemployment, is trade will develop export jobs in the U.S. In continuing

the protrade argument, the historical precedence comes into light, the Soviet Union wants and needs Western technology and the United States needs raw materials from Siberia's vast natural resource reserves. Lastly, the corporations' ~~discussion~~ develops an aesthetic approach. It contends that ~~increased~~ trade between America and the Soviet Union will ~~promote detente and better relations~~ between the antagonistic world powers. One way, the corporate executives believe this "good will" can be established is the reinstatement of MFN status to the Soviets and other communist countries. Though corporations have their own self interests in mind, much like the federal bureaucracy, they have realized that a combined effort on their part to promote trade would be beneficial. Consequently, the East-West Trade Council was established to lobby support for East-West trade. Because U.S. corporations realize the huge market available in the East, "the need for capital equipment in the Soviet Union and Eastern Europe will provide a good market for U.S. industrial companies for years to come."<sup>4</sup> One must decipher these realizations for expanded trade as to whether they are pursued for private gain or truly in the nation's best interest.

#### Governmental Opponents of Trade

Governmental opponents of expanding East-West trade include the Department of Defense, the General Accounting Office (GAO), and Congress. These groups work independently



of each other and oppose trade for different reasons. It is a misnomer to say that the Department of Defense is against trade with the Soviets: in fact, the official position of the Department is just the opposite. Needless to say, though, much of the governmental opposition to trade comes from the Pentagon, especially in the area of technology transfer. Recent media accounts cite ten areas that the Pentagon believes the Soviet Union is trying to obtain United States' military technology, such as missile guidance systems or the Stealth bomber. Therefore, middle-ranked officers in the Department, not in tune with the political ramifications, worry about the military aspects of technology transfer.

The General Accounting Office more fiercely opposes East-West trade than any other governmental anti-trade advocate. It sees America as having an unjustified overly liberal trade policy when dealing specifically with the Soviet Union. The GAO also has developed its own view of the decision making process in America. While not having a direct policy-making role the GAO has strong influence on the actions of Congress through its reports and recommendations.

The GAO locates the center of power in the Senate Foreign Relations Committee, the House International Relations Committee, and the Appropriations committees of both houses. Within the executive branch, the GAO claims that the CIA, the CIEP, the Office of the Special Representative for Trade Negotiations, the Office of the Management and Budget, and the Eximbank are most important. In

contrast to most governmental agencies, the GAO does not concede a major policy-making force to the Departments of Commerce and State.<sup>4</sup>

While this is a unique view of the policy making process, I disagree with the GAO in its estimation. The Departments of Commerce and State are the most influential. The reasoning supportive of this argument is, the Department of Commerce still remains the governmental advocate for industry and big business has a major influence on the propagation of U.S. interests. Likewise, the State Department controls the political and ideological goals of the U.S. in its affairs with foreign governments, and they deem necessary the economic policy for America's political relations, it is almost certainty to become policy. Again, one can illustrate this point with the Carter Administration's grain embargo against Russia which was clearly political in nature.

Congress, as a whole, has remained the most anti-Soviet branch of government. Its prolonged aversion to dealing with the Soviet Union was defined in the historical outline of this paper; this aversion still manifests itself in much of Congress' legislation concerning the Soviets. Within Congress itself are several committees which concern themselves with the many aspects of Soviet-American relations; these committees are the ones listed in the GAO's definition of the policy making process (page 26).

### Private Opponents of Trade

There are a formidable number of anti-trade arguments which are supported by the private element in the United States. The entire question of the Soviet Union's financial risk or credit-worthiness is foremost in the anti-trade controversy. The Soviets' default on the Lend-Lease of World War II and the refusal to pay on the 1972 trade agreement have fed the question even more. The Soviets are also suffering a balance of payments problem because of the inconvertibility of the ruble. The critics (most of whom are in academia: economists and political scientists) also argue against technology transfer. Connie Friesen has developed a coherent series of arguments against technology transfer.

- 1) the assumption the Soviets lag behind Western technology
- 2) the assumption that U.S. technology would be useful to the Soviet economy
- 3) any major transfer of technology would enhance Soviet military capability
- 4) the U.S. allies will provide whatever it won't
- 5) the fear that U.S. technology will be purchased in unpredictable and changing amounts, disrupting the U.S. economy
- 6) fear that the U.S. government lacks control over sales of technology.<sup>5</sup>

There is no argument with the first point, in most areas the Soviets are far behind the United States in technology. "In 1974 they purchased two ammonia plants from Chemical Construction Company similar to what they had purchased from the same company in 1932." As Marshall I. Goldman, professor of economics at Wellesley College points out, "The

Soviet Union's failure to duplicate such technology in the interim meant that for 40 years the Soviet Economy was denied the products that this technology could have provided."<sup>6</sup> The second argument, also cannot be denied, for simply the Soviets (as well as the rest of the world) now realize the benefits of having a highly technologically advanced economy. The third argument concerning military advancement to the Russians due to Western technology is the strongest argument against trade. However, a recent study by the National Security Symposium showed that in several areas the Soviets are more advanced than the West (see Appendix 1). The argument of the allies reaping the benefits of our "fears" to export to the communists has become a self-evident truth. The fears of the Soviets disrupting the United States' economy through unstable purchasing of goods are unfounded. The Soviets have a centralized economy which is based on a system of precise 5-year and annual plans, any unstable or unplanned purchases would be more disruptive to their own economy than to the U.S. The restrictions and licensing of exports in the interest of national security should be enough of an answer to the critics of lack of U.S. controls on technology transfer.

The final argument, and perhaps the hardest to resolve, is the issue of whether trade and detente have a causal relationship. Trade in and by itself does not cause peace or detente, but rather it develops a line of communication between the two countries. The inflow and outflow of information

in this system clearly maintains a dialogue, which in turn may lead to a lessening of tensions and detente.

### Summary

To conclude, the American system has developed no set process for national decision making in East-West trade. What exists is the constant infighting though behind the scenes between governmental departments and branches formulating a policy somewhat in the same manner as nature's "survival of the fittest" rule. (For years the "fittest" have been the administration which uses economic influence to further its foreign policy. However, the administration must heed the opinions of other groups when a strong consensus exists.) While the private sector lobbies for its own self-interests, the entire system of checks and balances, while being semi-chaotic with the individuals or groups showing extreme "tunnel vision," does appear to have direction and accomplish some goal.

## Notes

<sup>1</sup>Connie M. Freisen, The Political Economy of East-West Trade (New York: Praeger Publishers, 1976), p. 24.

<sup>2</sup>United States Department of Commerce, An Introduction to the Bureau of East-West Trade (Washington, D.C.: Government Printing Office, 1974).

<sup>3</sup>Freisen, p. 32.

<sup>4</sup>Ibid.

<sup>5</sup>Ibid., p. 34.

<sup>6</sup>Barnett, p. 135-136.

## CHAPTER THREE

### THE SOVIET UNION'S TRADE INFRASTRUCTURE

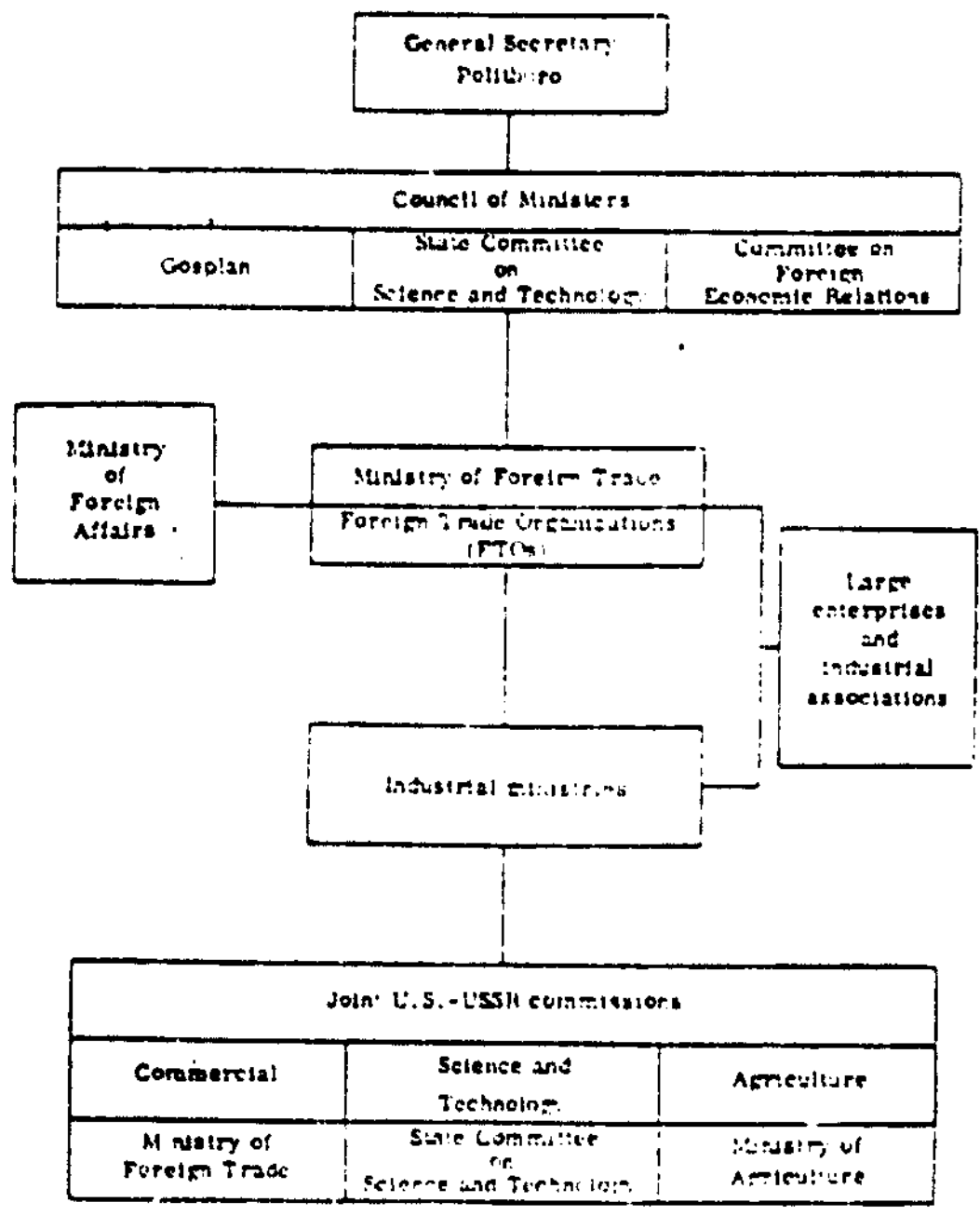
The Soviet Union's system of trade and policy making is entirely different to the United States. To understand the functions of the Soviet foreign trade system, one must comprehend the concept of a centrally planned economy. In general, everything in the Soviet Union is owned and operated by the government. It is controlled through a system of plans and goals. These economic plans are dictated by the political elite, the ranking members of the Communist Party of the Soviet Union (CPSU), during meetings of the Presidium and the Central Committee. These plans are then carried out and implemented by lower governmental levels. These economic plans are comprehensive in nature from making production schedules, employment, to setting prices; every aspect of the economy is pre-planned and often causes unnatural price levels for commodities. The Soviets also have "overfull" employment which causes artificial prices and problems of productivity. This is a problem inherent in a communist system which does not allow market forces to prevail. Some problems of productivity are manifested in the lack of incentive to produce, for as long as the Government's plan is met "everything is just dandy."

Perhaps the simplest presentation for understanding

the Soviet Union's governmental infrastructure would be to diagrammatically trace the decision making process (see graph 2). Most economic decisions are conceived within the Politburo, the ruling body of the CPSU, and are passed down for a "rubber stamp" ratification by the Central Committee. The plan is then passed to the governmental organs for implementation. These organs are the Council of Ministers and its directors, the Presidium. Within the Council of Ministers, there are three major groups which are directly related to the development of foreign trade: 1) the State Planning Committees (Gosplan) coordinate the entire economy, both centrally and regionally, 2) the State Committee of Science and Technology's function is to develop its name-sake by whatever means available, which includes the importation of foreign technology, 3) the Committee of Foreign Economic Relations deals with foreign trade within the East Bloc. These state committees along with the Council of Ministers then hand down the plan to the Ministry of Foreign Trade. This Ministry does the legal paperwork and negotiations with nations for the trade agreements. It also acts as a guidance and regulation group for the Foreign Trade Organizations (FTOs) which do the every day paperwork for the promotion of Soviet foreign trade. Each of the FTOs has a specific area of foreign trade (such as steel production) in which they are the sole authority for trade. The Ministry of Foreign Affairs is concerned with the political ideology in international relations. Their function could



The East-West Trade Decision-Making Process in the Soviet Union



Graph 2: Taken from Connie M. Freisen, Political Economy of East-West Trade, p. 55.

be compared to that of the United States' Department of State. While not wanting to be directly concerned with trade affairs, it will become involved when politically necessary. The large enterprises and industrial associations, while only having an advisory role in foreign trade, lobby for their own interests to the Ministry of Foreign Trade. It may be noted that these associations have approximately the same standing, in terms of influence, as the Industrial Ministries. The Joint U.S.-U.S.S.R. commissions are the final link between the two countries, this commission is divided into three basic trade groups, one representative from each country for each group. For the United States there are the Commercial, Science and Technology, and Agriculture, for the U.S.S.R., the Ministry of Foreign Trade, State Committee on Science and Technology, and the Ministry of Agriculture, respectively.

The entire process of the development of Soviet Foreign trade policy as well as trade itself, is difficult for American businessmen to make an accurate estimate of the needs of Soviet industry. In light of this, most business transactions are initiated by the Soviets and their trade organizations. The FTOs play the most important role in arranging trade with the West, they determine the method of payments which, because of a lack of hard currency to purchase imports or the lack of credits and loans, may have "some tendency to take the barter approach to foreign trade rather than to approach export and import transactions

completely independently."<sup>1</sup> There have been numerous cases reported of this type of transaction.

### Trade Reform

Economic reform in the Soviet Union is a slow and tedious process, because the central planning of the economy is such a large plan, change is difficult to bring about immediately. Reform has occurred, though. Prices which are relatively constant were changed in 1967 (the first time in twelve years) and have remained basically stable ever since.<sup>2</sup> Another reform was the consolidation of industry, into large industrial associations. These associations removed some of the burden of central planning by independently deciding which factory will produce what element of the industry. This was done to prevent duplication and shortages of supplies in the industry, thereby making it more efficient.

### Problems in Trade

There are many problems in Soviet-American foreign trade, most of which are caused by the Soviets' closed economy. Inconvertibility of the ruble is the major problem for limiting foreign trade, and may be explained in terms of the economy's overfull employment, repressed inflation, rapid growth and lack of productivity. Inconvertibility can be defined as, a person or country being unwilling to hold another country's currency because its value is not sufficient for the price level demanded by the country's

goods and services. Therefore the only currency conversions are those which directly equal the amount of incoming foreign currency from exports, because no free market for the ruble exists. Since this type of situation can usually happen only between two countries because no other countries will hold the inconvertible currency--this is then called bilateralism.

Balance of payment problems, although not present in the Soviet Union because of rigid state controls of foreign trade; there is little doubt that problems would occur if the state moved to an open trade system, for the reasons listed above. These problems could be corrected if the state would devalue its currency, however that is impossible because of the lack of exchange rates in terms of real prices. The communist countries could solve this problem by exporting commodities below the world price, dumping, in exchange for a currency devaluation. They have been accused of dumping on numerous occasions by the West and faced the retaliation of Western protection tariffs on their goods.

### Summary

The Soviet economy is a quagmire of bureaucratic indecision and stagnation. This problem is also extended to the area of Soviet-American international trade. However, gradually the Russian economic situation for foreign trade is improving; an example can be seen in its expanded trade

with western Europe (not necessarily true for the domestic economy); perhaps it is better said that the infrastructure for the development of trade is beginning to mature into a working system.

## Notes

<sup>1</sup>John P. Hardt and George D. Holliday, United States-Soviet Commercial Relations (Washington, D.C.: Government Printing Office, June 10, 1973), p. 62-63.

<sup>2</sup>Elena Knorre, "Our Daily Bread," New Times (Moscow) 27 (Moscow: Trud, 1979), p. 18.

## CHAPTER FOUR

### THE SOVIET AGRICULTURAL SYSTEM AND ITS POLICIES

An analysis of Soviet agriculture and its policies provide a necessary insight to the role of American-Soviet agricultural trade. Despite the extensive amount of land farmed in the Soviet Union (606 million hectares of agricultural land of which 226 million hectares are cultivated), which is forty percent more than that of the United States.<sup>1</sup> This inefficient and wasteful system has been the focus of Soviet policy in recent years. Within this policy there are five distinguishable areas of correction:

- 1) Making adequate capital available for investment in agriculture.
- 2) Acquiring new technology and applying it effectively throughout the country.
- 3) Correcting the imbalances in the regional agricultural labor supply and raising the low level of technical skills.
- 4) Correcting continuing inefficiencies in the organization and management of farm work.
- 5) Coping with consumer pressures for more and better food and with pressures for improving rural living conditions.<sup>2</sup>

This analysis will demonstrate how the Soviet government is presently making, applying, and correcting its policies in these five areas.

Until recently, Soviet history demonstrated relatively small amounts of governmental capital investment in agriculture in comparison to other aspects of spending, causing significant problems in the growth of agriculture. The economic burden through forced collectivization that Stalin has implemented on the Soviet agrarian society caused the reduction of output in 1950 to fall below the pre-revolutionary level.<sup>3</sup> After Stalin's death in 1953, the Soviets took a more active role in strengthening the rural economy, and agricultural output rose at an annual rate of 3.4%. This could be compared to the United States rate of 2.0%. However, since 1970 agricultural output in the U.S.S.R. has risen only at a rate of 1.0% annually.<sup>4</sup>

#### The Agricultural Economy

Economically, the Soviet Union spends more than one-fifth of its GNP and employs over 25% of the entire labor force in agriculture. The United States utilizes less than 4% of its GNP and less than 5% of the labor force in agriculture. Beginning in 1965, due to the concern and need for an improved infrastructure, Soviet capital investment for agriculture exceeded one-quarter of the nation's total capital investment, less than the 20% spent in the previous decade.<sup>5</sup> These increases in total ruble amounts are "in the eighth (five-year plan) increased (capital investment) to 81.5 billion rubles; in the ninth, to 130.5 billion rubles, and in the tenth five-year plan period, they will increase to 170 billion rubles."<sup>6</sup>



This massive influx of investment is being done in part to improve the debilitated infrastructure, which generates many inefficiencies in the present system. This problem is a main concern of the Party, which wrote at its 25th Congress meeting, "the infrastructure holds the solution for U.S.S.R. top-priority socioeconomic problems." Indeed, this weak infrastructure causes much waste in terms of agricultural products that cannot be brought to the consumer. The Soviet journal, Problems of Economics, wrote in 1978, "the lack of hard roads in rural areas (the present length meets roughly 60% of the minimum requirement) results in the loss of a significant percentage of the harvest."<sup>7</sup> It also noted that only 30% of the trucks delivered are increasing fleet size and that 25% of the ninth-year plan's fruit and vegetables were spoiled before delivery to the consumer.<sup>8</sup> Capital investment in agriculture can be seen as an attempt by government, in terms of policy, to improve the weaknesses of the infrastructure, thereby creating a more efficient and modern system that can more easily meet the needs of both the peasant farmer and the urban consumer.

"The productivity of the soil can be increased 'ad infinitum' by the application of capital, labor, and science,"<sup>9</sup> wrote Karl Marx, the father of the Soviet system. However, because of climate, environment, and years of backwardness in agricultural technology, the Soviets had to play a catch-up game in many different aspects of agriculture,

including technologically advanced mechanization systems to new climate resistant wheat hybrids that can withstand the harsh Russian weather. The Party's agrarian policy emphasizes the consolidation of the material and technical basis of agriculture, its industrialization, wide-spread land reclamation, and chemicalization.<sup>10</sup> Though technology is stressed, the advances made have been relatively small:

Notwithstanding these efforts, the level of agricultural technology in the USSR remains generally below that of other industrialized nations, a deficiency that coexists with a high level of scientific knowledge. Many Soviet agricultural scientists are world renowned, but the lag between their research finding and their application continues to be unusually long in the USSR.<sup>11</sup>

Nevertheless, gains have been made in improving the Soviet agriculture system, and the credit for them must be, in part, given to the Ministry of Agriculture, that organizes and controls the entire agricultural system, from agrarian research and management to the education of the rural community in secondary and higher educational institutions.<sup>12</sup> This Ministry administers one of the best run segments, save the military, of the Soviet economy, despite its problems. Present Soviet policy does indicate a strong commitment in the realm of agricultural technology. Whether it is the need for chemical fertilizers in eastern Siberia, better irrigation in the Volga-Ural region of European Russia, or the need for hardier grain hybrids in Kazakstan.

Today more than ever, this commitment has become greater and never experienced in the Soviet Union.

Imbalances in the labor supply for agriculture are an issue of policy in the Soviet Union, since Nikita Khrushchev opened the "Virgin Lands" in the mid-fifties, labor imbalances have become a significant problem, both geographically and technologically. One reason for this problem was the lack of satisfaction in the peasant's rural lifestyle. Their income level was lower than that of their counterparts, their work-days were longer, and the amount of goods and services available to them was much less. Therefore, a migration of rural peasants seeking the "better life" of the city occurred.<sup>13</sup> Soviet policy in response to this problem has been to raise the standard of living for the rural worker and to increase the amount of goods and services available to them. The level of income for farm workers has doubled since 1965, while the prices of consumer goods have remained relatively the same. Services have also increased, "cultural centers, libraries, cinemas, radio and television are rapidly becoming part of his every day life. The traditional division between rural-type goods and city-type goods has disappeared."<sup>14</sup>

Education of the rural peasants is also incorporated in this area of policy. Educational levels are rising, although they are still substantially lower in the countryside than in urban areas. Current emphasis on rural youth is work-training programs in agricultural related skills. The Communist Party of the Soviet Union wrote at its 24th Congress:

Now the typical man of the village is an educated, cultured and well-trained person with versatile interests. Incidentally, the number of specialists with a higher or secondary education in the countryside grew 16-fold between 1940 and 1970, and now totals 821 thousand.<sup>15</sup>

In spite of the improvements in the living conditions of the rural worker through pensions, higher wages, bonus plans, health benefits, housing grants, and paid vacations the migration of rural workers seeking the better, easier life in the cities continues. And to make matters worse, the majority of the persons leaving the country are the young, highly trained, highly skilled farm workers who are necessary for the system to grow. Which is why the retention and development of rural populations is indeed an emphasis issue in current Soviet agrarian policy.<sup>16</sup>

#### Administrative Problems

Perhaps the most important goal in the Soviet agriculture is that of overcoming the inefficiencies of management and the organization of farm work. This highly centralized agricultural management makes most of the important decisions for agriculture in the five-year annual plans. These plans encompass every aspect of farm activities, from planting and harvesting dates to the size of cattle herds on specific farms. The conversion of collective farms into state farms appears to be a recent trend in management policy because these giant "corporation-type" farms converted to central control to use the economies of scale and

relatively better technology. However, state farms still produce at a level well below the goals they were at first given.<sup>17</sup>

Centralized management, which is resistant to change, is one of the fundamental problems within the system. For example, the case of Ivan Khudenko, an upper level administrator for the Ministry of Agriculture, developed the "link-system" of farming (use of a limited group of specialists in agriculture) that could compete with American enterprises. The plan increased production by 20 times in the neighboring farms at less relative cost. However, Khudenko, while being correct in his assumptions, had proved the entire agricultural leadership wrong and shortly after his results were disclosed, he was arrested on a trumped-up charge of stealing state funds and sentenced to six years in prison where he died. Cases such as this are not at all uncommon. Because resistance to change in upper management areas exists, the inefficiencies of the organization are causing the reduction of bureaucratic mismanagement and "red tape" in agricultural administration. President Brezhnev himself considers the agricultural administration to be overly complex and has sent down directives ordering the reduction of size of this branch of government without losing effective central control (see Appendix 1). Additionally, they are to use economic incentives to spur on agriculture, rather than using administrative orders and directives.<sup>16</sup> The amount of bureaucratic "red tape" has

made Soviet agriculture an ineffective organization and has become a major policy issue.

### Consumer Satisfaction

Consumer pressures for better food and the improvement of rural living conditions is certainly the binding force in recent years in all areas of Soviet agricultural policies. Because pressure has been put on government by the rural and urban communities to improve the overall standard of living, the amount of consumer satisfaction has grown considerably. Although this must be compared to the almost absence of a consumer market in the Stalin era, conditions in present day U.S.S.R. fell well below the standard of living in the United States.

Probably the most emphasized goal in the region of Soviet agrarian policy is the improvement of the Soviet diet, mostly concerning meat consumption. This consumption is at a level which Soviet scientists and doctors consider to be inadequate for health standards. This is especially true for urban areas because of the lack of a transportation infrastructure to deliver the meat. Therefore, diets tend to be better in the countryside because the food available is supplemented by the private household plots. The private plots are unique because they produce over thirty percent of the total cultivated land. However, more important than how much they produce is what they produce, because almost fifty percent of the high utility goods goes to the consumer,

i.e., eggs, milk, meat, fresh fruits and vegetables.<sup>19</sup> This improvement in the diet is the central reason for the recent Soviet-American grain trade and because of these new goals, Soviet agriculture has been unable to produce enough grain to maintain livestock herds to meet these requirements. D. Gale Johnson, Professor of Economics at the University of Chicago, says, "If relatively high average Soviet grain yields of recent years have been due to favorable weather, a return to more nearly average weather would place some additional strains on the Soviet economy. The Soviet Union would have to import considerably more grain and other feed materials than it has since 1971 or reduce the consumption of meat."<sup>20</sup> Therefore, this commitment to the consumer is the sole basis for the "feed grain" trade between the United States and the Soviet Union.

#### Summary

It is evident through this section's analysis that when Soviet agricultural policy is at issue, the overwhelming concern in all areas of discussion is the commitment to the betterment of rural living conditions and the increased satisfaction of the consumer.

## Notes

<sup>1</sup>USSR Agriculture Atlas (Central Intelligence Agency, December 1974), p. 6.

<sup>2</sup>Ibid.

<sup>3</sup>V. Marskevich, USSR: Yesterday, Today, and Tomorrow (Moscow: Novosti Press Agency Publishing House, 1971), p. 43.

<sup>4</sup>USSR Agriculture Atlas, p. 4.

<sup>5</sup>Ibid.

<sup>6</sup>"Transformation of Soviet Agriculture," International Affairs (Moscow) (Chekhov: "Zwaniye" Society, 1977), p. 121.

<sup>7</sup>S. Bobylev, "Agricultural Production and the Development of the Infrastructure," Problems of Economics (Moscow: "Pravda" Publishers, 1978), p. 24.

<sup>8</sup>Ibid., p. 31.

<sup>9</sup>Karl Marx and Frederick Engels, "Collected Works," 3 (Moscow, 1975), p. 436.

<sup>10</sup>Transformation, p. 121.

<sup>11</sup>Atlas, p. 20.

<sup>12</sup>V. Morzov, Soviet Agriculture (Moscow: Progress Publishers, 1977), p. III.

<sup>13</sup>Hendrick Smith, The Russians (New York: Balantine Books, 1976), p. 275.

<sup>14</sup>USSR Agriculture (Moscow: Novosti Press Agency Publishing House, 1971), p. 103.

<sup>15</sup>Ibid., p. 105.

<sup>16</sup>T. Khadonov, "Regulation of the Development of the Private Household Plot," Problems of Economics (Moscow: Pravda Publishers, 1977), p. 26.

<sup>17</sup>Atlas, p. 26.

<sup>18</sup>USSR Agriculture (Moscow, 1971), p. 104.

<sup>19</sup>Atlas, p. 38.



<sup>20</sup>D. Gale Johnson, "Soviet Agriculture and United States-Soviet Relations," Current History (October 1977), p. 119.

## CHAPTER FIVE

### SOVIET-AMERICAN GRAIN TRADE

The Nixon-Brezhnev Moscow summit meeting in May 1972, considered the beginning of the era of detente, moved trade into a period which may be described as positive. The summit meeting produced a basic set of agreed principles for relations between the countries. The seventh principle of the agreements specifically pertained to international commerce,

the United States and the Soviet Union regard commercial and economic ties as an important and necessary element in strengthening of their bilateral relations and thus will actively promote the growth of such ties. They will facilitate cooperation between the relevant organizations and enterprises of the two countries and the conclusion of appropriate agreements and contracts, including long-term ones.<sup>1</sup>

This led to the signing of the U.S.-U.S.S.R. Joint Trade Agreement in October 1972, which was actually a series of agreements, such as environmental protection, space cooperation, and other joint ventures. The major obstacle in signing the agreements was the settlement of the Soviets' World War II Lend-Lease debts. The issue was settled when the Soviets agreed to pay \$722 million in annual installments of \$24 million until the year 2001 and America offered

to reinstate MFN status by 1975.

### Great Grain Robbery

Between these two agreements was the 1972 Russian grain purchase, often referred to as the "Great Grain Robbery." Although the grain purchase was not directly related to the other agreements, the general easing of tension promoted the agreement. This purchase of grain was not contrary to previous U.S.-U.S.S.R. trade agreements. The Soviets had several times before contracted grain sales from America when other grain exporting nations, i.e., Canada, Australia, Argentina, etc., were unable to fulfill the Soviet quotas for that period. The grain purchases of 1964 and 1971 bought 1.8 million and 3.0 million tons of grain, respectively, from the United States.<sup>2</sup>

The 1972 Great Grain Robbery was different because of the magnitude of the purchase, 19 million tons of grain at a cost of \$1.2 billion. This was to supplement the Soviet poor harvest in that year. The agreement which was signed July 8, 1972, provided that the U.S. would grant through the Commodity Credit Corporation \$750 million of financing for U.S.S.R. grain purchases. Also, it provided that the U.S.S.R. would purchase this grain in a period from August 1, 1972, through July 31, 1975<sup>3</sup> (see Appendix 3). This agreement lulled the United States into underestimating the Soviet Union's needs (because of their poor harvest) and allowed them to purchase much more grain than the agreement

provided at bargain prices. This drew criticism upon the U.S. and the Department of Agriculture for the managing of this fiasco. Immediately many changes were introduced to control grain exports. One such change was the requirement that all U.S. grain exporters report to the Department of Agriculture, within 24 hours, all foreign grain purchases over 100,000 tons. "This was to prevent a recurrence of the 1972 scenario in which Moscow's negotiators worked so discreetly that competing U.S. grain dealers . . . were unaware of what was happening. Moreover, key government agencies discovered . . . that federal subsidies were contributing to the bargain purchases by Exporthleb." (Exporthleb is the Soviet grain purchasing organization.)

There were also complaints about the workings of the new system of detente. The complaints centered around the possibility that detente did not serve U.S. economic interests. Secretary of State, Henry Kissinger, tried to disassociate the grain purchases with the month earlier Moscow summit,

The Soviet grain deal, whatever criticism may be made of it, had next to nothing to do with detente . . . at the Moscow summit there was next to no discussion of the grain deal because the assumption at that time was that the amount of purchases would be so low as to not justify the attention of the two national leaders.

The economic cost of the agreement to the U.S. was very high. The Soviet Union bought a majority of the grain

by a United States loan guarantee of \$750 million at a subsidized interest rate of 6-1/8% through the CCC. \$300 million in additional subsidy costs, from the federal government, to the grain exporters was also tagged onto the total loss. These subsidies were prevented by Congress shortly after the realization of what the Soviets had pulled off.<sup>6</sup>

In the wake of Soviet conduct, Congress passed a series of bills using the idea of linkage, the use of tradeoffs for achieving certain goals. In 1974, Senator Henry Jackson and Representative Charles Vanik used linkage in a bill to link together East-West trade and Soviet internal policies. The Jackson-Vanick Amendment provided that the U.S. would grant better trade conditions provided that the Soviets met a certain emigration quota of Jews from their country.<sup>7</sup>

Shortly before the 1975 grain purchases and the grain agreement the Soviets annulled the 1972 Joint Trade Agreement (in January 1975). There were several reasons for the annulment, first the value of the agreement to the Russians was significantly reduced due to the rise in world gold and oil prices. Secondly, Jackson-Vanik amendment appeared to overstep the bounds of Soviet tolerance in U.S. meddling in their domestic affairs. Finally, the limits on credits to the Soviets removed the benefits of the MFN status. President Ford tried to keep the trade agreement alive but the resolve was lost in the election year politics.<sup>8</sup>

### 1975 Grain Agreements

Many of the 1972 grain purchase errors were simply repeated in the grain agreements of 1975. The Department of Agriculture once again, despite the amount of contrary information, grossly underestimated the severity of the Soviet crop failures (which were 85 million tons less than in 1976). It took several weeks for the U.S. to realize that the Soviets were once again purchasing massive amounts of American grain. In the last two weeks of July 1975 the Soviets contracted to purchase over 9.8 million tons of grain. These large purchases subsequently led to the Longshoremen's boycott and refusal to load American grain bound for the Soviet Union. The President was consequently forced to suspend all grain sales to the Soviet Union until the signing of the five-year grain agreement on October 20, 1975 (see Appendix 4). The agreement called for the Soviet purchase of 6 million tons of grain each year with a 2 million ton optional purchase. It also provided the U.S. with an escape clause if there was a crop failure.<sup>9</sup>

This five-year agreement received much applause in the United States because it prohibited the Soviets from making sporadic purchases and disrupting the market. The agreement was negotiated by Undersecretary of State for Economic Affairs Charles W. Robinson instead of Department of Agriculture Secretary Earl Butz. This was a setback to the Department of Agriculture because it removed some of their power in foreign trade policy implementation.<sup>10</sup> Farm groups

throughout the country supported the agreement because of the stability it introduced into the market. However, they disliked the governmental intervention in prohibiting a free market situation.

The Soviet-American grain trade was relatively a stable process in the interim years between the 1975 grain trade agreement and the five-year agreement and the fact that the Soviet Union had basically stable harvest yields and had no need for massive grain imports to supplement their quotas.

#### The Grain Embargo

President Carter's imposition on January 4, 1980, of a grain embargo is the final element in the series of the American-Soviet grain trade. During the end of December in 1979, the Soviet Union invaded Afghanistan to protect their national interest. There has been much speculation on the reasons of the invasion, but it is enough for this paper to accept the invasion, whatever the reasons. President Carter, in justifying the embargo said "[the] Soviets should not be allowed to undertake such an act with impunity." And "it's the [the invasion] greatest crisis since Second World War."<sup>11</sup> However, the goals that were to be achieved by this embargo have been uncertain. Certainly the time was prime for a grain embargo, the previous harvest of the Soviet Union fell far below the set goal (48 million tons or 21 percent). The Soviet Union had to import an all-time record amount of

grain (35 million tons) to prevent a severe reduction in livestock herds. The United States was to supply by far the largest portion of the imports, 25 million tons in all, this in the advent of a record breaking United States harvest. In addition, the rest of the world was suffering from production/supply bottlenecks and seemed unlikely to export the amount of grain the Soviets needed.<sup>12</sup>

Nevertheless, the internal effects on the Soviet Union probably were not the only reasons for the embargo. As a matter of fact, it is most likely that the administration knew it would not have the intended effect.

For the embargo to have the intended effect three conditions had to be fulfilled. First, the United States must have been able to control the end market for their grain sales. Second, the United States must have been able to prevent the "leakage" of grain from other countries. Finally, the United States had to be sure the effect on the Soviets would have been severe enough to make them leave Afghanistan. One other reason was possibly that the United States felt stymied by the courses of action available to the invasion. Clearly Afghanistan was not in the United States sphere of influence, especially after the loss of Iran as an ally. The Administration felt that the only recourse was the embargo, which was definitely the strongest action available at that time.<sup>13</sup>

To prevent domestic outcry from the embargo when Carter announced the stoppage of seventeen million tons



already contracted for, the Department of Agriculture announced that the Commodity Credit Corporation would assume all contractual obligation. The United States still honored the 1975 trade agreement and permitted the sale of 3 million tons of grain. The ploy seemed to work as Carter won the Iowa (the major grain-producing state) caucuses by a 2-1 margin.

The domestic costs, at least during that of the embargo were quite exaggerated, as a matter of fact it was reported that to the United States were nonexistent. The export market had in fact a slight increase over the previous fiscal year (see Appendix 5a). However, there was a slight depression of grain prices during the summer of 1980 due to the release of government owned grain supplies into the market. The entire costs to the United States were borne in the short run by the federal government which purchased the export contracts for \$3.0 billion. The expenses were to be recovered when the government sold the grain back on the market.

The question remains over the embargo is whether or not it should have been maintained for so long. Clearly the Soviet Union did not suffer enough to accomplish the goals intended by the United States, they still occupy Afghanistan and with a greater deal control over the domestic population than before. In all the embargo prevented the Soviets from purchasing approximately 3.5 million tons of grain, although some estimates are as high as 6.0 million tons which the United States could have easily supplied. However, one

cannot discount the fact that the costs of grain were higher to the Soviets who still do not have enough hard currency. The effect on the Russian meat supply also did not occur. The Soviet livestock herds grew by 640,000, though at a slowed growth rate. Also, America's allies did not wholeheartedly support the embargo, records show that they increased their exports to the Russians when the American market dried up (see Appendix 5b).<sup>14</sup>

Since President Reagan lifted the embargo the long run effects of the embargo on the American economy have come to light. It has been reported that the costs were a net loss of \$22.0 billion and 120,000 jobs. Clearly, these costs, given the intended effect of the embargo by President Carter, were not at all justified. It is my belief, as well as many experts, that for the United States to impose agricultural sanctions the three conditions previously mentioned must be met. Then and only then can America take advantage of its greatest commodity.

### Summary

Through this case study of the American-Soviet grain agreements, it has been clearly shown that American foreign trade policies in regard to Soviet grain purchases have oscillated from strict control to being overgenerous. This may be compared to the similarly confused and unstable processes of detente. In the beginning of the era, trade policy was conciliatory towards the Soviet Union. However,

after the "Great Grain Robbery" of 1972 strict restrictions were enforced on agricultural exports in response to domestic pressures. It can be concluded from the responses to the issues that United States agricultural foreign trade policy is developed in complex interactions between special interest groups.

## Notes

<sup>1</sup>Joint Economic Committee, Soviet Economic Prospects for the Seventies (Washington, D.C.: Government Printing Office, 1974), p. 645.

<sup>2</sup>Joint Committee, Soviet Economy, p. 814.

<sup>3</sup>Connie M. Freisen, The Political Economy of East-West Trade (New York: Praeger Publishers, 1976), p. 156.

<sup>4</sup>Freisen, p. 156.

<sup>5</sup>Statement of Henry Kissinger, The Trade Reform Act of 1973, vol. II, p. 467.

<sup>6</sup>Charles E. Timberlake, Detente: A Documentary Record (New York: Praeger Publishers, Inc., 1978), p. 34.

<sup>7</sup>Kenneth A. Oye, et al., Eagle Entangled (New York: Longman, 1979), p. 14.

<sup>8</sup>Franklyn D. Holzman, International Trade Under Communism (New York: Basic Books, 1976), p. 169.

<sup>9</sup>Timberlake, p. 185-186.

<sup>10</sup>Freisen, p. 159.

<sup>11</sup>Round Table Discussion on the Grain Embargo (Champaign, Illinois: April 21, 1981).

<sup>12</sup>Robert L. Paarlberg, "Lessons of the Grain Embargo," Foreign Affairs (Fall 1980), p. 144.

<sup>13</sup>John P. Hardt, "East-West Commercial Relations," The Communist States in the Era of Detente 1971-77 (Cobvlin, Ontario: Mosaic Press, 1979), p. 279-280.

<sup>14</sup>Round Table Discussion on the Grain Embargo (Champaign, Illinois: April 21, 1981).

## CHAPTER SIX

### U.S. TRADE POLICY IMPLICATIONS

There are real reasons, such as war or an attack on our allies, for America to impose any economic sanctions on the Soviets on the grounds of national security and economic problems. However, these reasons are seldom the issue at hand when trade sanctions have been imposed by America. The following section of this paper will analyze the reasons and issues (mostly political in nature) of America's economic sanctions.

An analysis of Soviet-American international commerce since the beginnings of detente has shown a basic flaw in America's beliefs and policies. The Jackson-Vanik Amendment of the Trade Reform Act of 1974 clearly illustrates a misconception in what the limits of detente are or should contain. The "linking" of Soviet Jew emigration quotas to favorable economic treatment and the granting of Most Favored Nation status in trade to the Soviet Union is a gross miscalculation on how to influence Russian domestic policy (not to mention what is not in our sphere of influence).<sup>1</sup>

It should be emphatically stated that the United States is wrong to assume that favorable or unfavorable economic treatment of the Soviets should be tied to internal situations or policies when they do not directly concern

our national security or interests. This is not to say that violations of human rights should be ignored, but rather, change is to be implemented through other means such as through the United Nations or by public chastisement. In addition, the United States conceptions of detente should not be so ambitious. Detente should be concerned primarily with the state of Soviet-American bilateral relations and not the countries' philosophical and ideological differences.

In support of this argument, history has demonstrated quite the opposite in the Soviet Union's reactions when the United States has imposed economic sanctions. For example, Stalin's resolve to maintain his control over the East bloc after World War II is illustrated by his refusal to accept, in 1947, the Marshall Plan for the reconstruction of Europe. The Plan would have granted America considerable influence in how the money was to be spent.<sup>2</sup> By doing so, Stalin accepted the fate of millions of Soviet citizens suffering and dying because of starvation due to the lack of American aid.

The Soviets' response to the Jackson-Vanik amendment and the Trade Reform Act is yet another example of America's misinterpretation of detente. The Soviet Union in 1975 annulled the 1972 U.S.-U.S.S.R. Joint Trade Agreement which had been so laboriously negotiated and signed on October 18, 1972. This agreement which was sought after by both nations for the development of beneficial trade commodities and rules by which all trade was to be governed. The annulment

of the agreement and refusal to continue payment of their Lend-Lease obligations of World War II (also settled under the agreement) caused the Soviets to forego the possibility of MFN status from the U.S. The curtailment in the amount of Soviet Jews who were allowed to emigrate subsequently followed the Amendment also.<sup>3</sup>

This thesis through examples of historical and contemporary events has shown clearly that the Soviet Union will not tolerate the interference of economic sanctions imposed by the United States. This paper does not deny the rights of the United States to respond to Soviet acts of aggression, violations of human rights, or threats to the international balance of power that assaults world peace. Nevertheless, I believe the United States must reconstruct its views on trade with the Soviet Union under the auspices of detente. The following sections of this paper will develop an ideological basis for furthering Soviet-American trade under detente.

#### Policy Recommendations

In order for America to enjoy a workable trade policy with Russia, general changes must be made in their perceptions of detente. First the United States must re-evaluate their goals of detente and what the limits of detente can realistically include. In other words, the United States must accept the fact that their ambitions for detente are too broad. Detente does not include the ability to influence

change of ideological differences within the domestic/internal policies of the Soviet Union. Consequently, Americans cannot expect much more from detente than the hopes that any bipolar confrontation will be held in check and not escalated into nuclear war. This is the most pressing change for American policy-makers to accept, for without it detente will oscillate, as it has done throughout its existence. To summarize, American international policies for detente must be to establish order first and place systemic change second.

In extending the United States overall change in their views on detente, the U.S. must realize the different areas within detente. There are three major categories into which agreements of detente can be divided: political, military, and economic. If the United States is to make any headway in the continuance of detente it must disassociate the three categories as much as possible and not set one against the other. In other words, political or military disagreements should remain independent of the present economic relationship and vice versa. Also the status of one category should not be changed to effect the status of the other in order to make the situation more favorable. Therefore, in the area of economic detente, crisis problems should be directly confronted and not manipulated into change by other means.

The second change for the continuance of detente and the development of bilateral trade is the creation of a true



global economy. The United States should, with the Soviet Union, press for the cooperation of Western Europe (the EEC) and Japan, as well as the East bloc (CEMA) in the establishment of this world economy. The objectives of such an economy would maintain a stable international situation, thereby preserving peace. This international economy would promote interdependence among nations and establish a favorable line of communication between the antagonistic nations creating more understanding of each other.<sup>4</sup>

The third proposed change for the United States policy-makers is the development, with the Soviet Union, of private and public institutions, such as the joint U.S.-U.S.S.R. commissions, to maintain control of the everyday functions of detente and foreign commerce. It can be through these organizations that problems of detente might be solved. The infrastructure for this proposal has already been established. The national governments of America and Russia, the bureaucracies, international organizations such as the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT), corporations, inter-governmental commissions such as the U.S.-U.S.S.R. Joint Trade Commissions in Science and Technology, Commerce, and Agriculture, and other national organizations involved in East-West trade. What is lacking in this framework is the necessary guidelines which will establish, regulate, and further develop trade under detente.

These institutions will have to provide in their

policies room for entanglement as well as disengagement. For it must be possible for each party to be able to remove themselves from the policies of areas in which they feel threatened or manipulated. The reasoning behind this is to establish a "free will" or open markets in international commerce and remove the rigidity that compromises the furtherance of detente.

The guidelines and regulations that promote this proposition are rather simple but will take considerable effort to implement. American foreign trade policies with the Soviets should allow the business of trade to be conducted on a "normal" basis. The normalization of trade will provide for the United States and the Soviet Union a pragmatic way of approaching trade rather than a political/ideological method. For example, the Soviet's foreign trade organization (FTOs) would be allowed to contact United States exporters of commodities desired, then without governmental interference conduct trade in a manner that is similar to America's trade with their allies. It is understood that there must be regulations of trade with the Soviets. However, the governmental interference and restrictions will be based on national security areas such as the transfer of military or high technology and not on a political basis such as a grain embargo. In addition, the normalization will also provide the room for entanglement or disengagement much like normal business affairs which are controlled by the necessity of supply and demand.

If trade is conducted on such a normal basis the ramifications on detente can only be positive. Trade which is free of political considerations will further the feeling of goodwill between the two superpowers. This is not to say that economic situations, such as balance of payment problems or credit extensions, will be taken lightly or ignored. In such a situation the overall incentive to continue those feelings will most probably negate any negative feelings or problems. And ideologically economic interdependence will develop because of the mutual needs and understandings of both nations.

The needs of the Soviet Union in trade with the United States are vast. First and foremost the need of American technology such as computer soft and hardware is most important in the Soviets' purchases. The Soviets have not been able to develop the technology they need for several reasons. First the devastation of two World Wars and a civil war (the revolution) in the last fifty-odd years caused the Soviet economy to start over, virtually from scratch. The second reason is the historical backwardness of the development of Soviet technology. Third is the problem inherent in the infrastructure of the economy in its ability to increase productivity and development. Finally, and perhaps most importantly, the economic sanctions and restrictions imposed on trade with the Soviets by America and the West since the end of World War II.<sup>5</sup>

Needless to say there are available commodities which

may be of interest to the United States in trading with the Soviet Union. They consist mainly of the vast natural resources of Russia such as oil, natural gas, and minerals. However, this may not be the most important or beneficial reason for trade with the Soviets. If the Soviet payment problems could be solved, the United States could establish a trading partner who would help in their own balance of payments deficits. The possibilities of economic benefits in trade with Russia are immense; more jobs, increased output, and exports are only a few of the potential bonuses. If for any reason the United States develops trade with the Soviets, these reasons should provide enough incentive.<sup>6</sup> As has been shown, the potential benefits of normalizing trade under detente with the Soviet Union are immense, especially in agricultural trade. From an American viewpoint, casting aside political and ideological differences, the economic reasons for expanding international trade with the Soviets are alone very convincing. Granted that some may argue against trade because of Russia's economic instability. However, this paper is not advocating an irrational jump into trade, but rather a calculated implementation of well planned policy.

#### The Realities of Interdependence

Before concluding this essay there should be a brief discussion on the limits and realities of such proposed economic detente policies becoming America's international

trade policy with the Soviet Union. Much of the argument in this paper has involved interdependence and its ramifications. It has been argued that the possibility of a stable interdependent bilateral relationship between the United States and the Soviet Union because of their leading roles in world affairs will promote world peace and understanding. This goal is the ultimate hope of this thesis; however, it must be clarified that the separation of economic detente will not necessarily cause any changes in the other areas of detente.

The reality that these goals will be accomplished also is doubtful given the present state of America's decision-making process. The semi-chaotic method of domestic policy-makers can well be extrapolated into the realm of economic detente and the foreign trade policies requirements. The reason for American policy-making chaos is that the "tunnel vision" of special interest groups and lobbies trying to influence a bigger portion of the pie causes an uneven distribution in the development of trade policy. It can be compared to nature's rule of "survival of the fittest." Perhaps the greatest problem will be the removal and separation of economic detente from political detente and if this is to be achieved American leaders will have to make a complete reversal in present policy attitudes.

Although this paper has been limited to American-Soviet trade the problems of the EEC and CEMA cause to American policy-makers must be reconciled. The United

States must realize that Western Europe has already developed ties with the Soviets and the East bloc. The natural gas line under construction from Siberia connecting Western Europe with the Soviet Union and East bloc has been done independent of America's wishes. Therefore, America must press for economic cooperation between the nations, and thereby create trade policies that are in conjunction with each other by following a set of established guidelines and rules. In doing so, they will generate a stable global economy that freely permits multilateral trade and conceivably lays the foundations of global detente.<sup>7</sup>

### Conclusions

These proposed changes of United States policies of trade with the Soviet Union are necessary if an economic relationship of any consequence is to be established. But in order for this to happen the United States must follow these plans of re-evaluating their ideals of detente, become aware of the different and separate areas of detente, develop a global economy, and construct a new framework and guidelines for economic integration as well as the normalization of relations.<sup>3</sup>

In summation, the future of positive Soviet-American economic relations is dependent on the above changes in United States foreign trade policy. If these policy changes are followed bilateral commerce will be permitted to become pragmatic and "normal." However, this normalization

shall be complex and difficult for America to implement. Detente for Americans still remains the bastion of hopeful ambitions when compared to the expectations found within the Soviet elite. Consequently, Americans are still finding difficulty in distinguishing economic detente from political detente. Therefore, I maintain if the United States pursues these proposed changes there can be no more practical way to generate the feelings of good will between the Soviet Union and America. Without this goodwill there can be, to reiterate Senator Mondale's example, "no graver threat to international stability . . . and to national security itself."

## Notes

<sup>1</sup>Richard J. Barnett, The Giants: Russia and America (New York: Simon and Shuster, 1977), p. 133.

<sup>2</sup>Charles E. Timberlake, Detente: A Documentary Record (New York: Preager Publishers, Inc., 1978), p. 35-36.

<sup>3</sup>Robert L. Paarlberg, "Lessons of the Grain Embargo," Foreign Affairs (Fall 1980), p. 158.

<sup>4</sup>Connie M. Freisen, The Political Economy of East-West Trade (New York: Preager Publishers, 1976), p. 9.

<sup>5</sup>Adam B. Ulam, Expansion and Coexistence (New York: Preager Publishers, Inc., 1974), p. 162-163.

<sup>6</sup>Jack Brougher, "USSR Foreign Trade: A Greater Role for Trade with the West," Soviet Economy in a New Perspective for the Joint Economic Committee (Washington, D.C.: Government Printing Office, 1976), p. 683-685.

<sup>7</sup>Freisen, p. 179.

<sup>8</sup>Ibid., p. 181.

<sup>9</sup>Walter F. Mondale, "Beyond Detente: Toward International Economic Security," Foreign Affairs (October 1974).



## **APPENDICES**

## TECHNOLOGY AND US-SOVIET COMPETITION

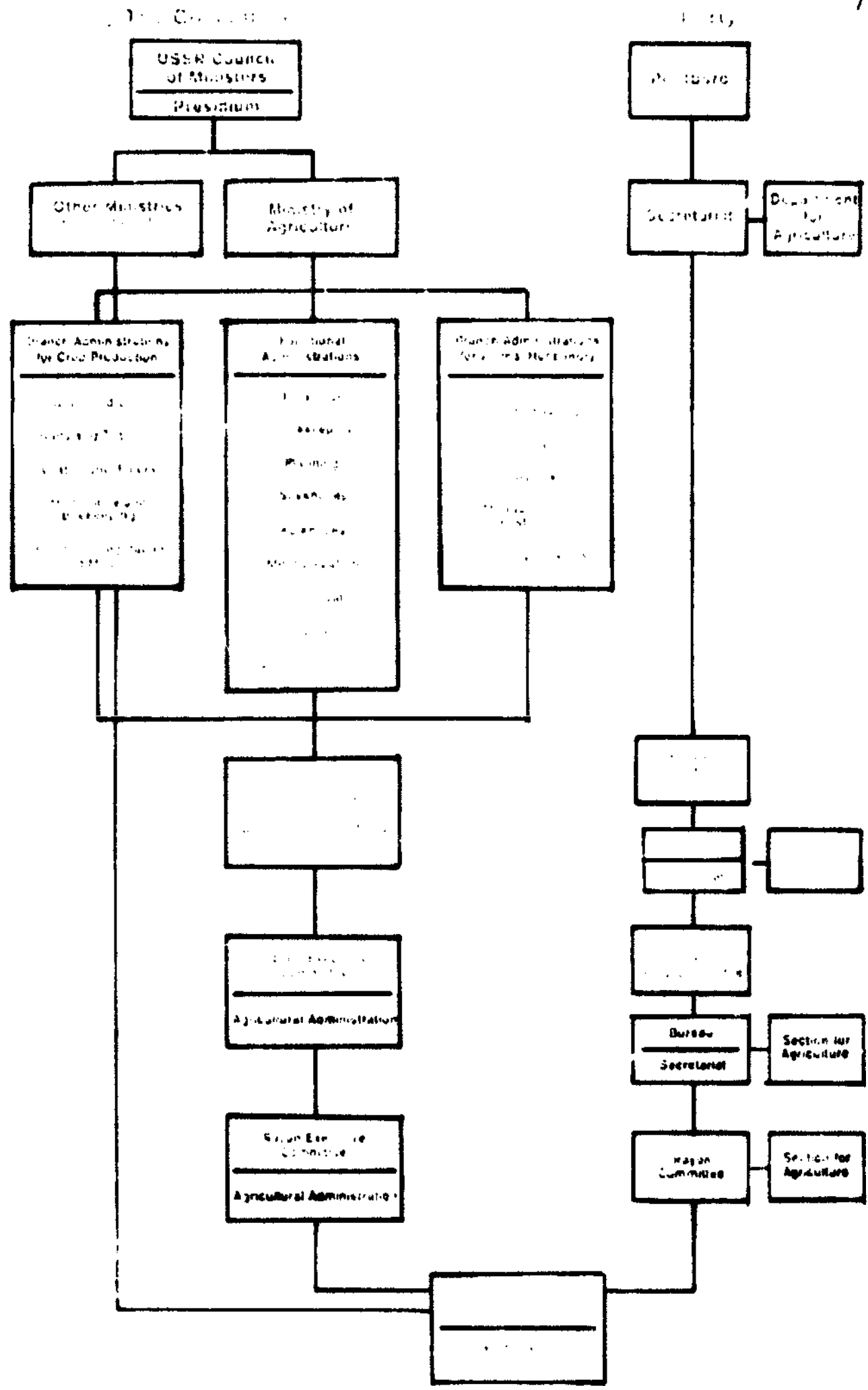
### RELATIVE US/USSR TECHNOLOGY LEVEL IN DEPLOYED MILITARY SYSTEMS\*

DEPLOYED SYSTEM	US SUPERIOR	US-USSR EQUAL	USSR SUPERIOR
<b>STRATEGIC</b>			
ICBM		X	
SSBN/SLBM	X-		
Bomber	X		
SAMs			X
Ballistic Missile Defense			X
Anti-satellite			X
<b>TACTICAL</b>			
<i>Land Forces</i>			
SAMs (including Naval)		X	
Tanks			-X**
Artillery	X-		
Infantry Combat Vehicles			X
Anti-tank Guided Missiles		X	
Attack Helicopters	X-		
Chemical Warfare			X
Theater Ballistic Missiles		X	
<i>Air Forces</i>			
Fighter/Attack Aircraft	X		
Air-to-Air Missiles	X		
PGM	X		
Air Lift	X		
<i>Naval Forces</i>			
SSNs		X	
Anti-Submarine Warfare	X-		
Sea-based Air	X-		
Surface Combatants		X	
Cruise Missiles		X	
Mine Warfare			X
Amphibious Assault	X-		
<b>Other</b>			
Communications	X-		
Command and Control		X	
Electronic Countermeasure		X	
Surveillance and Reconnaissance	X-		
Early Warning	X-		

\* These are comparisons of system technology level only, and are not necessarily a measure of effectiveness. The comparisons are not dependent on scenario, tactics, quantity, training, or other operational factors. Systems farther than 1 year from IOC are not considered.

\*\* The arrows denote that the relative technology level is changing significantly in the direction indicated.

Source: *The FY 1981 Department of Defense Program for Research, Development, and Acquisition*, Statement by Dr. William J. Perry, USDR&E, to the 96th Congress, 1 February 1980, p II-37.



United States Central Intelligence Agency,  
USSR Agriculture Atlas, 1974.

19 July 8, 1972)

76

**AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED STATES OF AMERICA AND THE GOVERNMENT OF THE UNION OF SOVIET SOCIALIST REPUBLICS WITH RESPECT TO PURCHASES OF GRAINS BY THE SOVIET UNION IN THE UNITED STATES AND CREDIT TO BE MADE AVAILABLE BY THE UNITED STATES**

The Government of the United States of America (USA) and the Government of the Union of Soviet Socialist Republics (USSR) have agreed as follows:

**Article 1**

1. The Government of the USA through its Commodity Credit Corporation's Export Credit Sales Program hereby makes available a total amount of US \$750 million credit for financing the payment for USA grown grains (at buyer's option—wheat, corn, barley, sorghum, rye, oats) purchased by the USSR in the USA under this Agreement. Such total amount may be increased by the USA.

2. The USSR through its foreign trade organizations shall purchase from private United States exporters not less than US \$750 million port value of such grains (at buyer's option—wheat, corn, barley, sorghum, rye, oats) for delivery during the three-year period August 1, 1972, through July 31, 1975, and of such amount not less than US \$200 million shall be purchased for delivery prior to August 1, 1973. In case of purchases of such grains for cash for delivery during the period of August 1, 1972, through July 31, 1975, the U.S. dollar amount of such purchases shall be counted as if they were made on credit terms under this Agreement.

3. The following provisions shall apply with respect to the credit referred to in Section 1 of this Article 1.

3.1 It shall continue to be available, if not previously exhausted, for deliveries made not later than July 31, 1975.

3.2 The total amount of credit outstanding at one time shall not exceed US \$500 million.

3.3 Delivery for purchases shall be F.A.S. or F.O.B. port of export and interest shall run from date of delivery. The date of delivery shall be the on-board date of the ocean bill of lading.

3.4 The principal and interest for credit arising under each delivery shall be payable by the USSR as follows: one-third of the principal annually, plus accrued interest on the outstanding principal balance to the date of each principal payment.

3.5 The amount of credit for each delivery will be limited to the United States port value of the commodity, without ocean freight, insurance, or other charges or costs.

3.6 The interest rate for purchases under this Agreement for which delivery is made not later than March 31, 1973, shall be 6-1/8% per annum on that portion of the obligation confirmed by a USA bank. This rate of interest for that portion of the obligation confirmed by a USA bank shall be applicable during the whole three-year period for repayment of the credit which arises under each delivery made not later than March 31, 1973.

**Article 2**

This Agreement shall enter into force from the day of its signing and shall remain valid until all the obligations arising from it for both sides are fulfilled.

IN WITNESS WHEREOF, the undersigned, duly authorized thereto, have signed this Agreement.

DONE at Washington this 8th day of July 1972 in duplicate, in the English and Russian languages, each text equally authentic.

For the Government of  
the United States of America:

Peter G. Peterson  
Earl L. Butz

For the Government of  
the Union of Soviet Socialist Republics:

M. Kuzmin

Appendix 3.

62 (October 20, 1975)

AGREEMENT BETWEEN THE GOVERNMENT OF THE  
UNITED STATES OF AMERICA AND THE GOVERNMENT  
OF THE UNION OF SOVIET SOCIALIST REPUBLICS  
ON THE SUPPLY OF GRAIN

The Government of the United States of America ("USA") and the Government of the Union of Soviet Socialist Republics ("USSR");

Recalling the "Basic Principles of Relations Between the United States of America and the Union of Soviet Socialist Republics" of May 29, 1972;

Desiring to strengthen long-term cooperation between the two countries on the basis of mutual benefit and equality;

Mindful of the importance which the production of food, particularly grain, has for the peoples of both countries;

Recognizing the need to stabilize trade in grain between the two countries;

Affirming their conviction that cooperation in the field of trade will contribute to overall improvement of relations between the two countries;

Have agreed as follows:

ARTICLE I

The Government of the USA and the Government of the USSR hereby enter into an Agreement for the purchase and sale of wheat and corn for supply to the USSR. To this end, during the period that this Agreement is in force, except as otherwise agreed by the Parties, (i) the foreign trade organizations of the USSR shall purchase from private commercial sources, for shipment in each twelve-month period beginning October 1, 1975, six million metric tons of wheat and corn, in approximately equal proportions, grown in the USA, and (ii) the Government of the USA shall employ its good offices to facilitate and encourage such sales by private commercial sources.

The foreign trade organizations of the USSR may increase this quantity without consultations by up to two million metric tons in any twelve-month period, beginning October 1, 1975, unless the Government of the USA determines that the USA has a grain supply of less than 225 million metric tons as defined in Article V.

Purchases/sales of wheat and corn under this Agreement will be made at the market price prevailing for these products at the time of purchase/sale and in accordance with normal commercial terms.

ARTICLE II

During the term of this Agreement, except as otherwise agreed by the Parties, the Government of the USA shall not exercise any discretionary authority available to it under United States law to control exports of wheat and corn purchased for supply to the USSR in accordance with Article I.

ARTICLE III

In carrying out their obligations under this Agreement, the foreign trade organizations of the USSR shall endeavor to space their purchases in the USA and shipments to the USSR as evenly as possible over each 12-month period.

ARTICLE IV

The Government of the USSR shall assure that, except as the Parties may otherwise agree, all wheat and corn grown in the USA and purchased by foreign trade organizations of the USSR shall be supplied for consumption in the USSR.

ARTICLE V

In any year this Agreement is in force when the total grain supply in the USA, defined as the official United States Department of Agriculture estimates of the carry-in stocks of grain plus the official United States Department of Agriculture forward-crop estimates for the coming crop year, falls below 225 million metric tons of all grains, the Government of the USA may reduce the quantity of wheat and corn available for purchase by foreign trade organizations of the USSR under Article I.

ARTICLE VI

Whenever the Government of the USSR wishes the foreign trade organizations of the USSR to be able to purchase more wheat or corn grown in the USA than the amounts specified in Article I, it shall immediately notify the Government of the USA.

Whenever the Government of the USA wishes private commercial sources to be able to sell more wheat or corn grown in the USA than the amounts specified in Article I, it shall immediately notify the Government of the USSR.

In both instances, the Parties will consult as soon as possible in order to reach agreement on possible quantities of grain to be supplied to the USSR prior to purchase/sale or conclusion of contracts for the purchase/sale of grain in amounts above those specified in Article I.

ARTICLE VII

It is understood that the shipment of wheat and corn from the USA to the USSR under this Agreement shall be in accord with the provisions of the American-Soviet Agreement on Maritime Matters which is in force during the period of shipments hereunder.

ARTICLE VIII

The Parties shall hold consultations concerning the implementation of this Agreement and related matters at intervals of six months beginning six months after the date of entry into force of this Agreement, and at any other time at the request of either Party.

ARTICLE IX

This Agreement shall enter into force on execution and shall remain in force until September 30, 1981, unless extended for a mutually agreed period.

Done at Moscow, this 20th day of October, 1975, in duplicate, in the English and Russian languages both texts being equally authentic.

For the Government of the United States of America:	For the Government of the Union of Soviet Socialist Republics:
---	--

CHARLES W. ROBINSON

N. S. PATOLICHYEV

**Wheat and Wheat Flour Exports and U.S. Share of World Total  
July/June Years 1976/77-1980/81**

	1976/77	1977/78	1978/79	1979/80	1980/81 <sup>77</sup> (3-12-81)
U.S. Exports	26.1	31.5	30.1	37.2	41.9
World Total	63.2	73.0	72.0	85.1	73.0
U.S. Share (%)	41.4	43.2	41.7	43.6	44.6

Source: Foreign Agricultural Circular, Grains, FC-11-81, March 12, 1981.

**Coarse Grain Exports and U.S. Share of World Total  
July/June Years 1976/77-1980/81**

	1976/77	1977/78	1978/79	1979/80	1980/81 (3-12-81)
U.S. Exports	50.6	52.1	56.9	71.6	73.0
World Total	82.5	83.9	90.0	100.3	103.6
U.S. Share (%)	61.3	62.1	63.2	71.4	70.5

Source: Foreign Agricultural Circular, Grains, FC-11-81, March 12, 1981.

**Effect on Other Country Exporters: Share in World Exports**

	1976/77	1977/78	1978/79	1979/80	1980/81 (3-12-81)
<u>Wheat</u>					
Canada	20.4	21.8	18.8	17.5	17.2
Australia	13.5	15.2	9.2	17.4	11.8
Argentina	8.9	3.6	4.6	5.5	4.5
EC-9	7.1	6.8	11.1	11.2	14.0
U.S.	41.4	43.2	44.9	43.4	44.6
<u>Coarse Grains</u>					
Canada	3.6	4.4	4.3	4.9	3.9
Australia	4.0	2.4	2.9	4.1	2.3
Argentina	11.5	13.1	12.8	6.6	8.9
S. Africa	1.7	3.5	3.2	2.9	3.7
Thailand	2.8	1.5	2.6	2.3	2.2
EC-9	4.7	6.6	5.9	4.4	5.2
U.S.	61.3	62.1	63.2	71.4	70.5

Source: Foreign Agricultural Circular, Grains, FC-11-81, March 12, 1981, pp. 8-9.

Prepared by S. C. Schmidt, Professor, Agricultural Economics, University of Illinois, Champaign-Urbana.

USSR Imports of Wheat and Coarse Grains by Source and Country Shares of USSR Market  
July/June Years 1976/77-1980/81

78

	Share of 1976/77 USSR Mkt.	Share of 1977/78 USSR Mkt.	Share of 1978/79 USSR Mkt.	Share of 1979/80 USSR Mkt.	Share of 1980/81 <sup>1</sup> USSR Mkt.
<b>Wheat</b>					
U.S.	3.9	63.0	3.0	19.3	3.9
Canada	1.2	16.1	1.7	11.2	2.1
Australia	0.4	6.7	0.3	4.5	0.1
Argentina	0.1	2.2	1.1	16.4	-
EC	-	0.0	-	0.0	2.0
Others	-	0.0	0.2	3.0	0.1
Total*	4.6	100.0	6.7	100.0	12.1
<b>Coarse Grains</b>					
U.S.	4.5	78.9	9.2	78.6	3.3
Canada	0.2	3.5	0.2	1.7	1.0
Australia	0.1	1.8	-	0.0	-
Argentina	0.2	1.5	1.0	13.7	1.0
EC	0.2	3.5	0.2	1.7	2.0
Others	0.3	5.3	0.6	5.1	0.8
Total*	5.7	100.0	11.7	100.0	10.8
<b>Totals</b>					
U.S.	7.4	71.8	12.5	67.9	11.2
Canada	1.4	13.6	1.9	12.9	3.1
Australia	0.5	4.9	0.3	1.6	1.0
Argentina	0.3	2.7	2.1	14.7	3.0
EC	0.2	3.5	0.2	1.7	2.0
Others	0.3	2.9	0.6	5.1	0.8
Total*	10.9	100.0	18.1	100.0	19.4

\* May not add due to rounding.

<sup>1</sup> Total commitments estimated from total announced and unconfirmed commitments to the USSR for shipment in 1980/81.

Source: Foreign Agricultural Circular, Grains, FG-34-PC, Dec. 11, 1980, p. 3 and International Wheat Council, Market Report, April 2, 1981, p. 3:6.

Appendix 5b.

Year	Production	Trade		Availability 1/	Utilization					Stock Change 2/	
		Imports	Exports		July/June	Feed 1/	Seed Indus- trial	Food	Waste		
(Million Metric Tons)											
Total Wheat 1/											
1972/73	184	23.8	1.0	207	187	25	1	1	17	19	0
1973/74	223	11.2	0.1	239	214	27	1	45	15	10	4
1974/75	196	3.7	0.3	195	156	28	1	15	28	10	-10
1975/76	197	26.1	0.7	166	160	14	3	1	14	19	-14
1976/77	224	11.0	3.3	232	221	9	3	15	31	110	41
1977/78	154	19.9	2.7	213	228	15	4	45	29	122	-15
1978/79	237	15.6	0.8	250	231	15	4	0	15	141	19
1979/80 4/	179	31.0	0.8	209	225	11	4	46	22	121	-15
1980/81 5/	189	15.6	1.0	211	225	1	4	47	18	111	-2
Wheat											
1972/73	16	15.6	1.3	170	98	14	1	15	1	1	1
1973/74	0	4.5	5.0	169	26	14	1	34	1	1	1
1974/75	0	0.5	0.0	42	43	14	1	34	1	1	1
1975/76	10	0.1	0.0	36	47	17	1	25	1	1	1
1976/77	0	0.0	0.0	10	1	1	1	15	1	1	1
1977/78	10	0.6	0.0	45	1	1	1	15	1	1	1
1978/79	11	0.1	1.5	101	107	14	1	15	1	1	1
1979/80 4/	0	12.0	0.5	102	116	11	1	1	1	1	1
1980/81 5/	0	13.0	0.0	111	11	1	1	16	1	1	1
Total Grain											
1972/73	0	0.0	0.0	0	0	0	0	0	0	0	0
1973/74	100	0.4	0.0	100	100	0	0	0	0	0	0
1974/75	100	0.7	0.0	100	100	0	0	0	0	0	0
1975/76	100	15.6	0.0	91	100	10	0	0	0	0	0
1976/77	115	0.7	2.0	119	119	0	0	0	0	0	0
1977/78	93	12.7	1.0	103	104	0	0	0	0	0	0
1978/79	105	10.0	0.0	117	117	0	0	0	0	0	0
1979/80 4/	11	15.4	0.0	30	102	10	0	0	0	0	0
1980/81 5/	11	12.5	0.0	98	108	0	0	0	0	0	0

1/ Availability by tank buffering system. Totals may not add due to rounding.  
 2/ Minus indicates withdrawal from stocks.  
 3/ Total grain production, trade and utilization figures include wheat and wheat plus grains.  
 In addition to wheat and coarse grains.  
 4/ Preliminary for trade, availability, utilization, and stocks change.  
 5/ Forecast for production, trade, availability, utilization and stocks change.



## BIBLIOGRAPHY

- "Allied Support of U.S.—More Words than Action," U.S. News and World Reports. January 12, 1980.
- Barnet, Richard J. The Giants: Russia and America. New York: Simon and Schuster, 1977.
- Bietel, Werner. "Development of Soviet Trade with the West," Soviet and East European Trade. Winter 1979/80.
- Bronke, Adam and Darry Novak, editors. The Communist States in the Era of Detente 1971-1977. Oakville, Ontario: Mosaic Press, 1979.
- Brzezinski, Zbigniew. "Policy is Often Made by Those Who Implement It," Department of State Newsletter. January, 1978.
- Caldwell, Lawrence T., and William Diebold. Soviet-American Relations in the 1980s: Superpower Politics in East-West Trade. New York: McGraw Hill, 1980.
- Carr, Miriam. "Soviet and East European Debt Perspectives," International Finance, October 1, 1979.
- Central Intelligence Agency. U.S.S.R. Agriculture Atlas. 1974.
- Christopher, Warren. "The Role of Exports in U.S. Foreign Policy," Department of State Bulletin. January 1979.
- "Comparing Superpowers—The Way the U.S.-Soviet Economies Stack-up," U.S. News and World Reports. February 11, 1980.
- Depauw, John W. Soviet-American Trade Negotiations. New York: Praeger Publishers Inc., 1979.
- Freisen, Connie M. The Political Economy of East-West Trade. New York: Praeger Publishers, Inc., 1976.
- Goryunov, Felix, and Vladimir Rosen. "On Basis for Equality on Trade Cooperation Between Russia and U.S." New Times (Moscow), December 1978.
- Hardt, John P. "East-West Commercial Relations," The Communist States in the Era of Detente 1971-1977. Oakville, Ontario: Mosaic Press, 1979.

- Hardt, John P., and George Holliday. U.S.-Soviet Commercial Relations. Washington, D.C.: Government Printing Office, June 10, 1973.
- Hardt, John P., George Holliday and Yuong Kim. Western Investment in Communist Economies. Washington, D.C.: Government Printing Office, 1974.
- Hoffman, Eric P. and Frederic Fleron, editors. The Conduct of Soviet Foreign Policy. New York: Aldine Press, 1971.
- Hoffman, Stanley. Primacy or World Order. New York: McGraw Hill, 1973.
- Holzman, Franklyn D. Foreign Trade Under Central Planning. Cambridge, Mass.: Harvard University Press, 1974.
- International Trade Under Communism. New York: Basic Books, 1976.
- "How the Soviet Union Exploited Detente," U.S. News and World Reports. January 14, 1980.
- Joint Economic Committee. Soviet Economy in a New Perspective. Washington, D.C.: Government Printing Office, October 14, 1976.
- Soviet Economic Prospects for the Seventies. Washington, D.C.: Government Printing Office, 1973.
- Kanet, Roger E. "History of the Soviet Union." Champaign, Illinois: 1981. (Class lecture at the University of Illinois).
- Knorre, Elena. "Our Daily Bread," New Times (Moscow). 27 Moscow: Trud, 1979.
- Kostecki, M. M. East-West Trade and the GATT System. New York: St. Martin's Press, 1978.
- Lane, David. Politics and Society in the U.S.S.R. 2nd ed. London: Martin Robertson, 1978.
- Masnata, Albert. East-West Economic Cooperation. Lexington: Lexington Books, 1974.
- McMillan, Carl H. Changing Perspectives on East-West Commerce. Lexington: Lexington Books, 1974.
- Mondale, Walter F. "Beyond Detente: Toward International Economic Security," Foreign Affairs. October 1974.

Morgenthau, Hans J. Politics Among Nations. 5th ed. revised. New York: Alfred A. Knopf, 1973.

Naraj, P. "Applications of MFN Treatment in East-West Trade," Acta Oeconomica, 1979.

National Security Affairs Conference 1980. Rethinking U.S. Security Policy for the 1980s. Washington, D.C.: National Defense University Press, 1980.

Oye, Kenneth A., Donald Rothchild, and Robert J. Leiber, editors. Eagle Entangled. New York: Longman, 1979.

Paarlberg, Robert L. "Lessons from the Grain Embargo," Foreign Affairs, Fall 1980.

Statement of Henry Kissinger. The Trade Reform Act of 1973, vol. II. 1973.

Timberlake, Charles E. Detente: A Documentary Record. New York: Praeger Publishers, Inc., 1978.

Ulam, Adam B. Expansion and Coexistence. New York: Praeger Publishers, Inc., 1974.

----- The Rivals. New York: Viking Press, 1971.

U.S. Department of Commerce. An Introduction to the Bureau of East-West Trade. Washington, D.C.: Government Printing Office, 1974.

Weeks, Albert L. The Other Side of Coexistence. New York: Pitman Publishers, 1970.

"Who's Hurt Most by the Embargo?" U.S. News and World Reports. January 12, 1980.