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Soviet Efforts to Achieve Economic Integration: The Causes, Consequences and Prospects

Robert M. Rosh*

I. INTRODUCTION

The Union of the Soviet Socialist Republics ("USSR") is attempting to radically reform its economy, through the implementation of Mikhail Gorbachev's policy of perestroika.¹ Politically and militarily the USSR continues to be a superpower, but economically it resembles a peripheral or semi-peripheral country in many respects.² Soviet economic backwardness and isolation are increasingly threatening to undermine its political and military power,³ a trend which Mr. Gorbachev hopes to reverse through perestroika.⁴

This Article contends that while restructuring the Soviet economy is a prerequisite to integrating it with the rest of the world, restructuring may in fact only be accomplished through integration. In August 1986, in order to integrate itself into the world market the USSR applied for permission to observe the latest rounds of negotiation of the General Agreement on Tariffs and Trade ("GATT") to be held in Geneva.⁵ In 1987, the USSR began exploring the possibility of joining the International Monetary Fund ("IMF").⁶ Membership in these two organizations could provide the USSR with economic resources and greater access to foreign markets. More importantly, these organizations would require the USSR to implement economic reforms both before and after membership were granted. Consequently, if the USSR were to join the

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¹ *Excerpts from Gorbachev's Report on Restructuring the Soviet Economy*, N.Y. Times, June 26, 1987, at A8, col. 1 [hereinafter *Gorbachev's Report*]. Perestroika means restructuring. *Id.*

² See P. DIBB, *THE SOVIET UNION: THE INCOMPLETE SUPERPOWER* 67-103 (1986). For a discussion of what differentiates core, semiperipheral, and peripheral economics, see I. WALLERSTEIN, *THE MODERN WORLD—SYSTEM: CAPITALIST AGRICULTURE AND THE ORIGINS OF THE EUROPEAN WORLD—ECONOMY IN THE SIXTEENTH CENTURY* (1974).

³ P. DIBB, *supra* note 2.

⁴ *Gorbachev's Report*, *supra* note 1.

⁵ See Kennedy, *The Accession of the Soviet Union To GATT*, J. WORLD TRADE L. Apr. 1987, at 23. For the text of the GATT, see General Agreement on Tariffs and Trade, Oct. 30, 1947, 61 Stat. A3, T.I.A.S. No. 1700, 55 U.N.T.S. 194 [hereinafter the GATT].

⁶ See Friedland, *IMF: Soviet Soundings*, BANKER, June 1987, at 41.

IMF or the GATT it would be binding itself to international legal commitments, which would provide Mr. Gorbachev with partners in the international community who would help him institute economic reforms even in the face of internal opposition.

This Article will explore the political, economic, and legal causes and consequences of the USSR's attempt to integrate itself into the world economy through gaining membership in the GATT and the IMF. Based on this analysis, this study will conclude that several countervailing factors will prevent the USSR from gaining membership in these two organizations.

II. THE SOVIET ECONOMY

The USSR is in desperate need of restructuring, a necessity recognized by Mr. Gorbachev.⁷ Mr. Gorbachev inherited a centrally planned economy, controlled by Gosplan, a bureaucracy which had been developed in an effort to replace market mechanisms with planning mechanisms.⁸ This economic model had achieved great success in providing for extensive development, but the extraordinary bureaucratization and subsequent politicization of the economy has led to inefficiency and inflexibility of the economy as a whole.⁹ Mr. Gorbachev consequently found himself in charge of a state with an economy that was unable to compete as a producer of manufactured and highly technological products in the world market.¹⁰ This economy continues to suffer shortages of basic consumer goods such as meat, dairy products, potatoes, shoes and clothing.¹¹ These problems have served to undermine the legitimacy of the regime as well as to reduce the incentives of individuals to work harder, since their increased income would not necessarily translate into increased consumption.¹² Mr. Gorbachev recognized that if the economy were not restructured it would continue to stagnate.¹³

In the USSR, politics intrude upon every level of economic planning.¹⁴ It is ironic that politics has replaced economics most clearly in the USSR—a society based on an ideology which analyzes societies primarily by studying economic relations.¹⁵ The politicization of the economy has resulted from the Communist Party's employment of economic

⁷ *Gorbachev's Report*, *supra* note 1.

⁸ See M. GOLDMAN, U.S.S.R. IN CRISIS 30-42 (1983).

⁹ *Id.*

¹⁰ See P. DIBB, *supra* note 2.

¹¹ See Keller, *Soviet Change vs. The Worker's Security*, N.Y. Times, May 10, 1988, at A1, col.

1.

¹² *See id.*

¹³ *Gorbachev's Report*, *supra* note 1.

¹⁴ D. BELL, THE COMING OF POST-INDUSTRIAL SOCIETY (1973).

¹⁵ *Id.* at 85.

mechanisms as a means of controlling the society, as well as from the political in-fighting that inevitably occurs between competing components of a bureaucracy.

Soviet bureaucratic planning mechanisms were developed, in part, to replace the socially insensitive workings of the market place.¹⁶ Markets organize exchanges very effectively, transforming complex decisions involving production and distribution into much simpler ones.¹⁷ If a society does not develop a market system, someone will have to face the complex decisions of what to produce and how to distribute it. To date no bureaucracy has lived up to that task.¹⁸ A bureaucracy lacks the ability to gather the complete information needed to make rational decisions regarding production and distribution,¹⁹ consequently the Soviets have replaced the flexible hand of the market with a bureaucratic hand of five thumbs.

Centralized planned economies have a great deal of difficulty establishing criteria to encourage, control and monitor industrial output. As Nikita Khrushchev complained, "It has become the tradition to produce not beautiful chandeliers to adorn homes, but the heaviest chandeliers possible. This is because the heavier the chandelier produced, the more the factory gets since its output is calculated in tons."²⁰

Given that the Soviet state owns the means of production, it almost always has been unwilling to allow individual firms that were inefficient to go out of business.²¹ This unwillingness, compounded by state guaranteed employment,²² has led to a great deal of "featherbedding," which ultimately makes Soviet production inefficient on a world scale.²³ Industrial Darwinism is one of the evils that socialism was designed to prevent;²⁴ in the USSR the right to a job, housing and medical care are considered to be human rights.²⁵

The process of Industrial Darwinism, insensitive as it is to human needs, does provide for technical innovations.²⁶ The Soviets have long sought to compensate for this lack of motivation to innovate by instituting forced accumulation.²⁷ Accumulation has been a poor substitute,

¹⁶ C. LINDBLOM, *POLITICS AND MARKETS* 67-68 (1977).

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ *Id.*

²⁰ *Id.* at 71.

²¹ See Keller, *supra* note 11.

²² M. GOLDMAN, *supra* note 8.

²³ See Keller, *supra* note 11.

²⁴ See generally J. SCHUMPETER, *CAPITALISM, SOCIALISM, AND DEMOCRACY* (1942).

²⁵ See Keller, *supra* note 11, at A12, col. 2.

²⁶ See J. SCHUMPETER, *supra* note 24.

²⁷ M. GOLDMAN, *supra* note 8.

however, for the demands of the market place.²⁸ In the Soviet economy there are few mechanisms which serve to encourage technical innovations,²⁹ but many inadvertently result in the suppression of innovations. Indeed, the managers of enterprises often fear innovations; if they experiment with such innovations they may fail to meet their output quotas, whereas if they succeed, new higher quotas may be imposed.³⁰

The Soviet economy has long been insulated from the world market, and this insulation has reinforced the Soviet's inability to compete in world markets.³¹ While economic planning was not the original impetus for a state economic monopoly over foreign trade and severe limitations on trade with market economies,³² if such strictures did not exist, planning would have been of little value.³³ Free trade would destroy the planning mechanism.³⁴ Consequently, Soviet exports currently must be funneled through Foreign Trade Organizations that are subject to central government control.³⁵

Capitalist economies often insulate infant industries from more efficient external competition, but firms in these industries still face internal competition, and ultimately must compete in the world economy. The USSR, however, continues to rely on insulation regardless of the maturity of its industrial base, because Soviet industries have not achieved the degree of efficiency attained by those in the West.³⁶ Prices in the USSR bear little resemblance to world market prices.³⁷ They are established through planning rather than market mechanisms, and in the case of consumer goods are often subsidized by the state in an effort to maintain popular support.³⁸ In addition, control over the actions of citizen consumers has been maintained, in part, by the inconvertibility of the ruble.³⁹

All of these mechanisms have insulated the Soviet economy from foreign competition, and insulation, in turn, has reinforced the uncompetitive nature of the Soviet economy. The policy of perestroika is designed to redress the inefficiency and uncompetitiveness of the Soviet economy

²⁸ C. LINDBLOM, *supra* note 16.

²⁹ *Id.* at 298-99.

³⁰ *Id.*

³¹ See P. DIBB, *supra* note 2.

³² G. A. SMITH, *SOVIET FOREIGN TRADE* 27 (1973).

³³ *Id.*

³⁴ *Id.*

³⁵ See Kennedy, *supra* note 5, at 34. All imports and exports must be approved by government officials. *Id.*

³⁶ JOINT ECONOMIC COMMITTEE OF CONGRESS, 97TH CONG., 1ST SESS., *EAST EUROPEAN ECONOMIC ASSESSMENT* 401-30 (Comm. Print 1981) [hereinafter *ASSESSMENT*].

³⁷ *Id.*

³⁸ *Id.*

³⁹ G.A. SMITH, *supra* note 32.

through decentralization and the introduction of market mechanisms.⁴⁰ Also, as the next section suggests, if the USSR were to join the IMF and the GATT, the effect would be to encourage, indeed enforce, the restructuring of the Soviet economy.

III. WHY INTEGRATION WOULD SPUR REFORM

Key policy makers in the USSR want their country to join the international division of labor in order to gain greater access to Western technological goods, credits and markets. They believe that entering such a division of labor will make the Soviet economy internationally competitive. In the anarchic system of sovereign states, however, a functional division of labor between national economies can take place only when there are mechanisms which significantly reduce the uncertainties and insecurities that the interstate system ordinarily generates. Therefore, a division of labor between states can only arise in a stable and secure environment, for interdependence is a rational policy only where there is a degree of certainty that one will obtain the products that one needs but did not produce.

It has been suggested that hegemonic dominance or international regimes allow cooperation to take place over long periods of time.⁴¹

The GATT and the IMF have been the two major foundations upon which an international trade regime has been built.⁴² The Soviets hope that by joining the GATT and the IMF they would enjoy more stable trade and financial relationships with the West, gain access to markets and financial assets which will help in restructuring the Soviet economy and gain a degree of influence in these important institutions. Most importantly, joining the IMF, and especially the GATT, might make the policy of perestroika irreversible.

A number of Mr. Gorbachev's policies are designed to increase Soviet production of high technology items. For instance, tremendous investments in the production of computer equipment are being undertaken in order to achieve an 18% annual growth rate in this area,

⁴⁰ See *Gorbachev's Report*, *supra* note 1.

⁴¹ This analysis can be found in R. KEOHANE, *AFTER HEGEMONY* (1984).

⁴² The concept of international regimes has become widely used in the field of international relations. The now standard definition of a regime, can be found in Krasner, *Regimes And The Limits of Realism: Regimes as Autonomous Variables*, 36 INT'L ORG. 497 (1982). Krasner defines a regime as a set of principles, norms, rules, and decision-making procedures around which actor expectations converge. Principles are coherent sets of theoretical statements about how the world works. Norms specify general standards of behavior. Rules and decision-making procedures refer to specific prescriptions for behavior in clearly defined areas. Krasner gives the example of the liberal trade regime. The principle is comparative advantage. The norm is that barriers to trade should be eliminated. The specific rules and decision-making procedures are set out by the GATT.

and the production of robots is slated to increase by 120% per year.⁴³ The USSR is attempting to replicate internally the ongoing Western technological revolution, but this process will require the importation of Western products. The USSR has recently experienced, in a limited fashion, some of the problems associated with a peripheral role in the world economy. The value of its natural resource exports, particularly oil and natural gas, which constitute a large percentage of its hard currency exports, has fallen dramatically.⁴⁴ By joining the IMF, the USSR would have greater access to Western financial markets and the capital necessary to modernize its economy. Increasing the value of Soviet primary products to pay for these exports could prove difficult, given the current low price for oil. Consequently, the USSR could well incur large debts in the next few years, and joining the IMF might help in bridging any foreign exchange gaps.⁴⁵

By joining the GATT, the USSR would have greater access to foreign markets, and a large market for Soviet goods once they became technologically competitive. Membership in the GATT would also open the Soviet economy to foreign competition, thereby hopefully spurring greater efficiency in Soviet production. Because joining the GATT commits a state to a set of policies which tie a state's hands with respect to free trade,⁴⁶ a state is able to accomplish its goal of achieving freer trade because it is buttressed against the demands of special producers' groups. Following this line of reasoning, if Mr. Gorbachev succeeded in obtaining membership in the GATT for the USSR, he would be better able to limit the forces in the USSR which are opposed to perestroika.

The USSR would be bound by its article of agreements with the GATT to pursue economic reforms in order to open the Soviet economy to the international market. These reforms would be a precondition to greater international market access for Soviet products.⁴⁷ As Mr. Gorbachev has acknowledged, "I think that the central question is the question of how to deepen this process (perestroika), how to move forward with perestroika and make it irreversible."⁴⁸ Membership in the GATT might help Mr. Gorbachev answer this central question.

Mr. Gorbachev's proposals for restructuring the Soviet economy

⁴³ SUBCOMMITTEE ON NATIONAL SECURITY ECONOMICS OF THE JOINT ECONOMIC COMMITTEE, 100TH CONG., 1ST SESS., GORBACHEV'S ECONOMIC PROGRAM: PROBLEMS EMERGE 13-14 (Comm. Print 1988) [hereinafter PROBLEMS EMERGE].

⁴⁴ *Id.*

⁴⁵ Friedland, *supra* note 6, at 41 (quoting Jan Vanous).

⁴⁶ See Roessler, *The Scope, Limits, and Function of the GATT Legal System*, 8 WORLD ECON. 287 (1985).

⁴⁷ See Kennedy, *supra* note 5.

⁴⁸ NEWSWEEK, May 30, 1988, at 31.

have generated much opposition within the USSR.⁴⁹ Political resistance has been exhibited by enterprise managers who are being asked to increase output and quality simultaneously, as well as from bureaucrats in the industrial ministry who are fearful of losing their power or even their positions.⁵⁰ These elites have a strong interest in preserving their political base, and decentralization would serve to decrease their political power.⁵¹ Opposition and resentment to Mr. Gorbachev's policies are also beginning to be exhibited among the Soviet masses. According to Soviet economists, 16 million people will lose their jobs and require relocation or retraining by the year 2000 as a result of restructuring the Soviet economy.⁵² While the Soviet people are accustomed to shortages of consumer goods, many Soviet workers believe that perestroika will translate into "no vodka, no meat, and no jobs."⁵³

Layoffs in the USSR have begun, but their effects have been cushioned by policies which have provided jobs for all workers who have been displaced, and reassigned workers who were displeased with their replacement jobs.⁵⁴ In order to prevent mass discontent and prevent giving ammunition to his political opponents, Mr. Gorbachev has had to provide generous pay raises to keep the work force content.⁵⁵ To date, these constraints have limited the extent to which reforms have been instituted.⁵⁶ Membership in the GATT and the IMF, and the agreements these organizations entail, however, would tie the hands of both Mr. Gorbachev and his opponents. Soviet accession to these two organizations would also provide Mr. Gorbachev with external allies and, if need be, scapegoats in his pursuit of perestroika.

Given Mr. Gorbachev's desire to restructure the Soviet economy, and the continuing strong internal opposition to his economic policies, his best hope is to commit his country irreversibly to these reforms. Gaining membership in the GATT would go far toward achieving this goal. If the USSR were to join the GATT it would have to accord Most Favored Nation ("MFN") treatment to all GATT members, observe the maximum tariff levels, establish a schedule under which to negotiate further concessions, limit the use of nontariff barriers, provide genuine market access to foreign products, and provide general information

⁴⁹ PROBLEMS EMERGE, *supra* note 43.

⁵⁰ *See id.*

⁵¹ *See* Comisso, *Introduction: State Structures, Political Processes, and Collective Choice in CMEA States*, 40 INT'L ORG. 230 (1986).

⁵² Keller, *supra* note 11, at A12, col. 3.

⁵³ *Id.* at A1, col. 1.

⁵⁴ *Id.* at A1, col. 2.

⁵⁵ *See id.*

⁵⁶ *Id.*

pertaining to its internal and external economic relations.⁵⁷

Joining the IMF would not automatically require changes in policy on the part of the USSR. As long as a state is not borrowing money from the IMF that state can do as it pleases, and it is not bound to any IMF conditions.⁵⁸ Once an agreement for a loan or standby arrangement with the IMF has been concluded, typically a large number of conditions are imposed on a country. In order to receive access to IMF funds,⁵⁹ a country must: eliminate import controls, reduce or eliminate government subsidies, and achieve the full convertibility of its currency.⁶⁰ Mr. Gorbachev is attempting to accomplish many of these goals. For instance, the USSR annually spends \$115 billion in order to subsidize consumer prices.⁶¹ Over half of this goes to subsidizing food staples.⁶² Mr. Gorbachev plans to dramatically decrease these subsidies and eventually eliminate them, but this could have significant political ramifications.⁶³ By joining the IMF and borrowing money from it, the USSR would gain access to the financial resources needed to modernize its economy, provide Soviet policy makers with a convenient scapegoat on which to blame the social dislocation that restructuring will cause, and prevent the political opponents of perestroika from changing Soviet policy.

IV. PRECONDITIONS TO AND CONSEQUENCES OF JOINING THE GATT AND THE IMF

The preconditions of joining the GATT are greater than those for the IMF; the consequences of joining the GATT may also be greater, given that unless the USSR borrowed money from the IMF it would not be subject to IMF conditions. While a state is supposed to provide detailed information on its balance of payments and its reserves if it wishes to become a member of the IMF, Poland and Romania, which are members of this organization, have not provided the IMF with this economic information.⁶⁴ On the other hand, as a prerequisite to joining the GATT the USSR would be required to institute a wide range of economic re-

⁵⁷ See Herzstein, *China and the GATT: Legal and Policy Issues Raised by China's Participation in the General Agreement on Tariffs and Trade*, 18 LAW & POL'Y INT'L BUS. 371, 377-378 (1986).

⁵⁸ See Friedland, *supra* note 6, at 42.

⁵⁹ Access to IMF funds is often a prerequisite to receiving private loans.

⁶⁰ C. PAYER, *THE DEBT TRAP: THE INTERNATIONAL MONETARY FUND AND THE THIRD WORLD* (1974).

⁶¹ See Barringer, *Bold Transition for Soviets: Flexible Prices and Specter of Inflation*, N.Y. Times, June 28, 1987, § 1, at 12, col. 2. The full convertibility of a state's currency is attained, in part, through depreciation.

⁶² See C. PAYER, *supra* note 60.

⁶³ See Barringer, *Soviet Prices: Strawberries Are a Model*, N.Y. Times, June 28, 1987, § 1, at 1, col. 5.

⁶⁴ See Friedland, *supra* note 6, at 42.

forms,⁶⁵ which would result in extensive economic, political and legal consequences.

The GATT is governed by the norm of reciprocity. When a country joins the GATT it gains access, through the MFN clause and reduced tariffs negotiated during the various rounds of the GATT, to the markets of contracting states.⁶⁶ In return, a country is traditionally expected to offer "equivalent" tariff concessions of its own.⁶⁷ A problem, however, arises in the accession of non-market economies because in most cases the major barriers to trade are not tariffs, but rather are the purchasing decisions made by economic planners.⁶⁸ As discussed, bureaucratic decision-makers, not the market, allocate goods and services within the economy, and therefore the reduction of tariffs in a non-market economy does not necessarily result in an increase in market access for contracting parties.

The GATT has experienced difficulty in trying to design a method by which non-market economies reciprocally open their economies to a prescribed number of imports.⁶⁹ The rules of the GATT, which are designed to eliminate distortions to the market, may be ineffective in opening up their economies. Reducing tariffs may not increase trade if the centralized planning mechanism does not decide to allow the purchase and distribution of foreign products.⁷⁰ Furthermore, a state centralized economy can also promote exports whose cost does not reflect the full cost of production.⁷¹

International free trade, however, does not require that all GATT members follow a laissez-faire philosophy. The articles of the GATT recognize that there may be appropriate reason for states to intervene in their own economies, and that it is their sovereign right to do so.⁷² In fact, the GATT does not differentiate between economies or industries owned by shareholders, the state, the workers, or some combination of such groups.⁷³ Ownership does not matter; but differentiations between centrally planned and decentralized economies do concern the GATT, because the articles of the GATT assume that prices are set by the market rather than by centralized planners.⁷⁴

⁶⁵ See Kennedy, *supra* note 5.

⁶⁶ See Herzstein, *supra* note 57, at 400.

⁶⁷ See Patterson, *Improving GATT Rules for Nonmarket Economies*, J. WORLD TRADE L. Mar.- Apr. 1986, at 185, 187.

⁶⁸ Herzstein, *supra* note 57, at 374.

⁶⁹ *Id.* at 375.

⁷⁰ *Id.*

⁷¹ See *id.* at 376.

⁷² See the GATT, *supra* note 5, art. XI, XII and XIX.

⁷³ See Herzstein, *supra* note 57, at 375-376.

⁷⁴ See Roessler, *supra* note 46, at 295.

While a number of centralized planned economies are members of the GATT, including Czechoslovakia, Hungary, Romania and Poland,⁷⁵ the contracting parties to the GATT have not been entirely satisfied with their association with these states.⁷⁶ Market access to centralized planned economies has been limited in spite of the protocols which were signed prior to their accession to the GATT.⁷⁷ For instance, Poland's commitment to increase the dollar value of its imports by 7% a year was rendered ineffectual by the dollar's subsequent depreciation.⁷⁸ Poland was therefore able to increase the dollar value of its imports without necessarily increasing the volume of its imports.⁷⁹

The potential for these states to engage in unfair trading practices has generated a great deal of concern on the part of states with market economies.⁸⁰ Unfair trading practices, as defined by the articles of the GATT, include the selling of products for export at a lower price than for domestic consumption (dumping)⁸¹ as well as the practice of governments bearing the costs of their exporting enterprises (subsidization).⁸² Because the prices of exports by non-market economies are not necessarily governed by the market, and because the composition of exports is not necessarily determined by comparative advantage, it is difficult to determine when these economies are engaging in unfair practices.

Under the GATT, a countervailing duty can be imposed by the importing country equaling the amount of the subsidy provided by the exporting country.⁸³ Likewise, a dumping duty can be imposed equal to the price differential between the price being charged in the exporting country's internal market and the stated export price.⁸⁴ Implementing these duties, however, requires that price comparisons be made; and since in centrally planned economies market forces do not determine prices, there is no internal basis for comparison.⁸⁵ Since 1957, contracting parties to the GATT have been allowed to use prices for similar products produced by "surrogate countries" as a means of comparison to determine whether subsidization or dumping is occurring.⁸⁶ This practice, as well as any conceivable modification of it, ignores the possibility that a non-market economy could be the most efficient producer of a

⁷⁵ See Herzstein, *supra* note 57, at 375.

⁷⁶ *Id.*

⁷⁷ See Patterson, *supra* note 67, at 186.

⁷⁸ *Id.* at 188.

⁷⁹ *Id.*

⁸⁰ *Id.* at 195-199.

⁸¹ *Id.* at 196.

⁸² *Id.*

⁸³ *Id.*

⁸⁴ *Id.*

⁸⁵ *Id.*

⁸⁶ Patterson, *supra* note 67, at 197.

particular product.⁸⁷

The EC, in particular, has been concerned about the evaluation of non-market economy unfair trading practices and the inadequacies of traditional methods which guard against such practices.⁸⁸ Consequently, the accession protocols of Poland, Hungary and Romania permit contracting parties to employ discriminatory quantitative restrictions within certain limitations.⁸⁹

Some commentators maintain that, in spite of these problems, the GATT is flexible enough to allow the development of protocols that create a mutually beneficial relationship between market and centrally planned economies, including the USSR.⁹⁰ Others assert that the USSR will not be allowed to accede to the GATT until its economy is radically reformed.⁹¹ Certainly, the USSR's tremendous potential trade capacity as well as the possibility that it could employ the planning mechanism to limit access to the Soviet economy, makes the question of trade imbalances of great importance to the members of the GATT.⁹² While the GATT could demand an import commitment from the Soviet Union — a pledge to increase imports by a specific amount — such commitments imposed on Poland and Romania have been deemed ineffective.⁹³

States with market economies, the United States in particular, have already expressed their unwillingness to allow the USSR membership in the GATT because of its centrally planned economy.⁹⁴ In order to prepare effectively for GATT membership, the USSR will have to reform dramatically its pricing system and allow prices to be determined by the marketplace. It will not be sufficient for enterprises to set the prices of their production. These enterprises must be able to purchase all the factors of production, including labor, at prices determined by the market. Otherwise prices will fail to reflect the costs of production, thereby distorting access to the Soviet market as well as Soviet entry to the markets of GATT members. This reform is needed to avoid quarrels over market access; the consequences, however, of this reform would be to inject a very large dose of capitalism into the Soviet economy.

A number of scholars have questioned whether the USSR is willing

⁸⁷ See *id.*

⁸⁸ *Id.* at 192-195.

⁸⁹ *Id.*

⁹⁰ See, e.g., Patterson, *supra* note 67, *passim*.

⁹¹ See, e.g., Kennedy, *supra* note 5, at 33-39; Herzenstein, *supra* note 57, at 375.

⁹² See Herzstein, *supra* note 57, at 375-376 (Hertzstein makes this same observation with respect to China. China poses perhaps an even greater threat because of its abundant cheap labor force.)

⁹³ See *id.* at 387.

⁹⁴ Kennedy, *supra* note 5, at 23-24.

to take such a dramatic step.⁹⁵ Nevertheless, Mr. Gorbachev has served notice that he wishes to attempt this radical restructuring of the Soviet economy; indeed, Mr. Gorbachev has even recognized that "[a] radical reform of the pricing system is a most important part of the economic overhaul. Without it, a complete transition to the new mechanism is impossible."⁹⁶

V. THE LIMITED CHANCES FOR MEMBERSHIP

The economic and perhaps even the political costs of joining the GATT, in particular, would most likely outweigh the benefits for the USSR; although membership in the GATT would serve to commit the USSR to Gorbachev's policies.⁹⁷ Even if Mr. Gorbachev's policies result in restructuring the Soviet economy, the USSR might still not be allowed to join the GATT and the IMF. Indeed, global politics may intrude on global economics. Furthermore, Mr. Gorbachev's success is far from assured. Radically reforming the Soviet economy will entail enormous costs, and Mr. Gorbachev's policies have and will continue to generate opposition among the political elite and the masses.

Conceivably the USSR would not need to restructure its economy in order to join the IMF. Yet the United States, in particular, is concerned that if the USSR were to join the IMF, it would attempt to politicize the debate within this institution.⁹⁸ Power within the IMF is delegated along undemocratic lines, with a country's voting percentage equaling its contribution to the IMF.⁹⁹ Presently the United States effectively has a veto in this organization, because its contribution is almost equal to the percentage of negative votes needed to stop a proposal.¹⁰⁰

Third World countries have been frustrated by both this voting arrangement and the fact that it has led to strict policies being imposed upon debtors.¹⁰¹ The United States is concerned that the USSR would not act "responsibly" within the IMF and would instead side with the countries of the Third World.¹⁰² U.S. uncertainty as to how the USSR would act once it were a member has and will most likely continue to prevent its achieving membership status.¹⁰³ Given that the United States holds the voting strength necessary to veto proposals, it could continue

⁹⁵ See S. BIALER, *THE SOVIET PARADOX: EXTERNAL EXPANSION, INTERNAL DECLINE* (1986); Kennedy, *supra* note 5.

⁹⁶ *Gorbachev's Report*, *supra* note 1, at A8, col. 5.

⁹⁷ See Roessler, *supra* note 46.

⁹⁸ See Friedland, *supra* note 6, at 42.

⁹⁹ C. PAYER, *supra* note 60.

¹⁰⁰ *Id.*

¹⁰¹ *Id.*

¹⁰² See Friedland, *supra* note 6.

¹⁰³ *Id.* at 42.

to block Soviet membership in the IMF indefinitely. A major shift in U.S. foreign policy would be required before Soviet membership is possible. Conservative Senate members could conceivably prevent such a shift even if a new administration were inclined to allow the Soviets to join this organization.

Even if the USSR were willing to make all the economic reforms necessary to satisfy the GATT, it is still quite possible that developed capitalist states, and in particular the United States, would reject its application for admission to this organization.¹⁰⁴ One potential reason for U.S. opposition is that if the USSR were to join the GATT, the United States would be less able to employ economic means against the Soviets in order to achieve political ends.¹⁰⁵ The employment of economic statecraft is a major tool of U.S. foreign policy toward the USSR,¹⁰⁶ and the United States has frequently broken bilateral trade agreements with the USSR in response to a Soviet political or military action.¹⁰⁷ If the USSR were a member of the GATT, and the United States violated the rules of the GATT in order to prevent or respond to a Soviet action, it could set an adverse precedent which could later be used against the United States. It would also allow the USSR to employ this institution to argue on its own behalf.¹⁰⁸

Nevertheless, with respect to the United States, the USSR would not necessarily obtain many economic advantages even if it joined the GATT. While the United States generally imposes a 38% tariff on Soviet products compared to a 2.8% tariff levied on imports in general (because the USSR has not been granted MFN status), this disparity would not necessarily be reduced even if the USSR were a member of the GATT.¹⁰⁹ The USSR would not be granted MFN status from the United States. Title IV of the Trade Act of 1974¹¹⁰ (the Jackson-Vanik amendment) allows the United States to extend such treatment to Communist countries only for limited periods, and renewal of this status is contingent on a determination that the country is maintaining emigration

¹⁰⁴ *Id.* The USSR failed to take note of a number of technical requirements in its application for observer status to this Soviet initiative. Neither Kennedy, *supra* note 5, nor Patterson, *supra* note 67, make much reference to the effects that the political rivalry between the USSR and the United States will have on the possibility of Soviet accession to the GATT. Although Kennedy notes that the United States may have rejected Soviet membership in the GATT in 1986 in part because of political reasons, he goes on to analyze the possibility of Soviet accession if economic reforms are instituted and makes no further reference to the fact that the United States and its political allies might continue to oppose Soviet membership.

¹⁰⁵ See D. BALDWIN, *ECONOMIC STATECRAFT* 206-290 (1985).

¹⁰⁶ *Id.*

¹⁰⁷ *Id.*

¹⁰⁸ *Id.* See also Herzstein, *supra* note 57, at 380.

¹⁰⁹ See Farnsworth, *Russia's Effort to Sell in U.S.*, N.Y. Times, Aug. 4, 1987, at D1, col. 3.

¹¹⁰ 19 U.S.C. § 2432 (1982). See Herzstein, *supra* note 57, at 383.

policies that meet the standards set forth in the Act.¹¹¹ Such an action is allowable under article XXXV of the GATT, which gives any country the right to deny the applicability of GATT rules between itself and an entering country.¹¹² Consequently, the U.S. policy of linking economic policy to human rights and other political issues would continue to provide numerous political difficulties for the USSR even after attaining GATT membership. At best, the Soviets could only hope to be granted temporary MFN status, and such a position is extremely tenuous; for instance, in 1987 the U.S. Senate voted to repeal Romania's MFN Status in order to protest Romanian human rights violations.¹¹³

The United States has expressed its opposition to Soviet membership in the GATT because it is a centrally planned economy.¹¹⁴ Decentralizing the Soviet economy would entail certain economic costs. While the economy of Yugoslavia, for example, has experienced rapid industrialization and increased productivity, this has come at the cost of triple digit inflation as well as a tremendous increase in its international indebtedness.¹¹⁵ Even if the USSR were willing to pay these economic costs, it is still possible that the United States would be able to prevent the USSR from joining the GATT for political reasons. The military and political rivalry that exists between the United States and the USSR may prevent them from becoming economically interdependent. Given this political rivalry, Soviet policy makers would likely balk at the possible political costs involved, even if the Soviets were willing to pay the economic costs necessary to join the GATT. Presently these political costs are not readily apparent, because Soviet accession to the GATT is not imminent. However, if the USSR were granted conditional membership to the GATT, the potential political costs of joining this organization would prove to be prohibitive.

VI. THE EASTERN EUROPEAN ALBATROSS

Since World War II, instead of integrating itself into the world economy, the USSR has sought to develop a division of labor between itself and the states of Eastern Europe.¹¹⁶ It has done so in order to amass the resources necessary to maintain the balance of power system that has

¹¹¹ Lansing & Rose, *The Granting and Suspension of Most-Favored-Nation Status for Nonmarket Economy States: Policy and Consequences*, 25 HARV. INT'L L. J. 343 (1984).

¹¹² See Herzstein, *supra* note 57, at 383.

¹¹³ See Rasky, *Senate Suspends Special Trade Status for Romania as Protest on Human Rights and Emigration Issues*, N.Y. Times, June 27, 1987, at A5, col. 1.

¹¹⁴ See Kennedy, *supra* note 5, at 23-24.

¹¹⁵ Jovic, *How Much is the IMF Helping Yugoslavia*, 37 REV. INT'L AFF. 10 (1986).

¹¹⁶ See Bunce, *The Empire Strikes Back: The Transformation of The Eastern Bloc from a Soviet Asset to a Soviet Liability*, 39 INT'L ORG. 1-46 (1985).

arisen between itself and the United States.¹¹⁷ Control over Eastern Europe has allowed the USSR to compete militarily with the United States, a country whose economy is currently 55% larger than that of the USSR.¹¹⁸ Soviet imperial control over this area has provided the insurance necessary to encourage economic integration with and economic development of Eastern Europe.¹¹⁹ In turn, the economic integration and development have solidified the Soviet's imperial control.¹²⁰ However, Soviet control over Eastern Europe may serve to increase the political costs of joining the IMF and especially the GATT, because even if Mr. Gorbachev can achieve consensus within the USSR, his efforts may still be undermined by constraints resulting from the USSR's imperial dominance over Eastern Europe.¹²¹

Soviet integration into the world economy may not be possible until its empire is dismantled. Longstanding cooperative relations with the West would be difficult under conditions which might require the Soviets to intervene into the satellite countries of Eastern Europe. One of the consequences of joining the IMF and the GATT may be that Soviet policy makers increasingly would be confronted by the dilemma that the use of force against a rebellious Eastern European state would be counter-productive in achieving its economic policies, whereas the non-application of force would increase dramatically the likelihood that its empire (and hence its security policy) would unravel.

The four mechanisms of control that the Soviets have employed in order to maintain their imperial dominance over Bulgaria, Czechoslovakia, East Germany, Hungary and Poland are: 1) military domination, 2) party penetration and cooperation, 3) economic integration and dependence, and 4) the comparative economic development of these countries. The latter three mechanisms have been stressed in order to lessen Soviet dependence on military domination, the exercise of which is very costly, especially in political terms.¹²²

Comparative economic development has been encouraged in order

¹¹⁷ *Id.*

¹¹⁸ See PROBLEMS EMERGE, *supra* note 43, at 1.

¹¹⁹ M. MARRESE & J. VANOUS, SOVIET SUBSIDIZATION OF TRADE WITH EASTERN EUROPE: A SOVIET PERSPECTIVE (1983).

¹²⁰ *Id.*

¹²¹ See Gaiti, *Gorbachev and Eastern Europe*, 65 FOREIGN AFF. 958 (1987).

¹²² Romania is not included because it has consistently been a maverick among Eastern European states and does not fit perfectly within the model being outlined. It openly criticized the USSR's invasion of Czechoslovakia. In 1978, it refused to increase its defense expenditures in spite of the USSR's request to do so. It refused to aid Vietnam against China in 1980. It participated in the Los Angeles Olympics, and it continues to resist its full integration into both the Warsaw Pact and the Council for Mutual Economic Assistance ("CMEA"). Romania has achieved a large degree of autonomy because it is outside the militarily strategic northern tier, and because its internal politics, which closely resembles Stalinism, have traditionally posed no threat to the USSR.

to promote the legitimacy of these governments and lessen their reliance on the need for direct Soviet intervention.¹²³ The Soviets have subsidized this effort in part because Eastern Europe's integration into the Warsaw Pact allows the USSR to benefit militarily from Eastern Europe's economic development.¹²⁴ However, the security benefits derived from Soviet imperial control are coming at continuously higher economic costs — an expense which the Soviets are increasingly unwilling and unable to bear.¹²⁵ At the same time, economic development has brought with it ever rising Eastern European expectations — expectations that increasingly cannot be met because of Eastern Europe's economic integration with the USSR, the rigidity of its economic structures and this area's subsequent inability to integrate fully into the world economy.¹²⁶ While Gorbachev desires economic reforms and greater integration with the West for both the USSR and Eastern Europe, a constantly worsening legitimization crisis in Eastern Europe may serve to stymie his efforts.

Soviet leadership will not, however, quickly dissolve an empire that was so costly to build and so pivotal as to the USSR's Competitiveness with its major adversaries. As is regularly noted, Eastern Europe is a buffer zone between the USSR and the West that provides for the strategic basing of troops.¹²⁷ The troops of Eastern Europe provide some degree of protection for the USSR through their integration into the Warsaw Pact. Revenues and resources can be extracted from Eastern European economies in order to produce weapons within these economies as well as to help pay for the military hardware produced by the USSR.¹²⁸ The combined economic production of the economies of East Germany, Czechoslovakia, Hungary, Poland and Bulgaria is equal to almost 40% of the Soviet GNP.¹²⁹ This economic base allowed Eastern European armies to provide 36% of the total Warsaw Pact main battle tanks and 44% of the tactical aircraft in northern and central Europe as of 1980.¹³⁰ Eastern Europe's military integration with the USSR has allowed for economic integration, which has enabled the USSR to encourage and, in part, subsidize economic development in Eastern Europe.¹³¹ This development, given Soviet imperial control, can be mobilized by the Soviets in order to maintain a balance of power with the United States.

¹²³ See Bunce, *supra* note 116.

¹²⁴ See M. MARRESE & J. VANOUS, *supra* note 119.

¹²⁵ *Id.*

¹²⁶ See Bunce, *supra* note 116.

¹²⁷ *Id.*

¹²⁸ See Johnson, *The Warsaw Pact: Soviet Military Policy in Eastern Europe*, in *SOVIET POLICY IN EASTERN EUROPE* 257 (S. Terry ed. 1984).

¹²⁹ See M. MARRESE & J. VANOUS, *supra* note 119.

¹³⁰ Johnson, *supra* note 128 at 257 n. 4.

¹³¹ See *id.* at 257.

The Council For Mutual Economic Assistance ("CMEA") is the organization that has been employed by the USSR to encourage and control economic integration.¹³² The coordination of production and trade in both the military and civilian sectors of the Eastern European economies is the major task of this organization.¹³³ Interestingly, the economic integration that has occurred between the USSR and Eastern Europe as a result of CMEA's operation has taken a somewhat unusual form: the Soviets have allowed themselves to enter a division of labor with what might be construed as a peripheral economic role. They are the main supplier of Eastern Europe's raw material, especially energy, needs. In turn, a large percentage of their imports from this area are in the form of industrial goods including military equipment.¹³⁴ The USSR has allowed this to occur first of all because it has within its borders an enormous supply of many natural resources, and thus such trade maximizes its factor endowments.¹³⁵ More importantly, however, oil is the lifeblood of an industrial economy, and the Soviets, by making Eastern Europe dependent on the USSR for oil, control the pulse. Soviet energy policy has become a "key lever" of Soviet political control as a result of Eastern European energy dependence.

If the USSR were to join the GATT, this would result in a loosening of Soviet economic control over Eastern Europe by weakening the level of economic integration achieved by CMEA. Article XIII of the GATT stipulates that the import and export of goods from and to signatory countries are to be accorded nondiscriminatory treatment.¹³⁶ Any advantage granted to one country, according to article III, must be granted to all countries.¹³⁷ This could pose a problem for the USSR because it would threaten the countertrade agreements it has with Eastern European countries which are members of the CMEA.¹³⁸ While tariffs on inter CMEA trade might be exempt from general MFN treatment because of the regional integration exception contained within article XXIV of the GATT, countertrade agreements most likely would be viewed as constituting a subsidy or quantitative restriction on trade, which is not allowed under the articles of the GATT.¹³⁹ The elimination of counter-trade agreements would lessen economic integration between

¹³² M. MARRESE & J. VANOUS, *supra* note 119.

¹³³ See Checinski, *Warsaw Pact/CMEA Military-Economic Trends*, PROBS. COMMUNISM, Mar.-Apr. 1987, at 15.

¹³⁴ See Matussek, *Eastern Europe: Political Context*, in ASSESSMENT, *supra* note 36, at 96.

¹³⁵ See Hardt, *Soviet Energy Policy in Eastern Europe*, in SOVIET POLICY IN EASTERN EUROPE, *supra* note 128, at 208.

¹³⁶ Liebman, *GATT and Countertrade Requirements*, 18 J. WORLD TRADE L. 252, 254 (1984).

¹³⁷ *Id.*

¹³⁸ *Id.*

¹³⁹ *Id.*

the USSR and Eastern Europe. Furthermore, any exceptions made to regional arrangements are only permissible if all the members of this regional group are members of the GATT.¹⁴⁰ At present the USSR, East Germany, Vietnam, Czechoslovakia and Mongolia are not members of the GATT. In order for CMEA agreements to be recognized all of these countries would have to join the GATT.¹⁴¹ Membership in this organization would give Soviet allies numerous other trading opportunities, and might therefore weaken their dependence on the USSR — a result not likely desired by Soviet policy makers.

CMEA provides numerous political and economic benefits to the leaders of Eastern Europe by insulating their economies from dramatic price fluctuations in the world economy and by minimizing shortages that might otherwise arise.¹⁴² In particular, Eastern European economies have not been forced to undergo painful restructuring in order to achieve energy efficiency because of their access to relatively cheap and secure energy supplies.¹⁴³ However, while in the short-run isolation from world energy markets has helped these economies, in the long term these benefits have come at the cost of limiting the efficiency and competitiveness of Eastern Europe's industries. Indeed, Eastern European countries are reported to have used on average 40% more energy per unit of GNP than did EC countries.¹⁴⁴

Like the USSR, the economies of Eastern Europe need economic reforms, but in all likelihood their leaders could not survive them. Yet without reforms, these regimes will face increasing economic stagnation and political turmoil. There is an implicit social contract between the governments and peoples of Eastern Europe: as long as their standards of living improved, Eastern Europeans would not challenge the politics of the regime.¹⁴⁵ In the immediate future the economic performance of Eastern Europe does not appear especially promising. It is ironic to note that Marxist analyses of crises are probably best applicable to the societies which claim to be following Marxist tenets. For instance, the Polish crisis has been aptly characterized as Marx's revenge against Lenin — economic conditions changing much more rapidly than the superstructure's ability to cope with the changes.¹⁴⁶

Mr. Gorbachev, like his predecessors, cannot afford an independent

¹⁴⁰ *Id.* at 259.

¹⁴¹ *Id.*

¹⁴² Matusek, *supra* note 134.

¹⁴³ See Hardt, *supra* note 135.

¹⁴⁴ *Id.* at 213.

¹⁴⁵ See Marer, *Economic Policies and Options for Eastern Europe*, in PROSPECTS FOR CHANGE IN SOCIALIST SYSTEMS 21-22 (C. Bukowski & M. Cichock eds. 1987).

¹⁴⁶ See Terry, *Soviet Policy In Eastern Europe: The Challenge of the 1980s*, in SOVIET POLICY IN EASTERN EUROPE, *supra* note 128, at 350-56.

and autonomous Eastern Europe. While his regime's rhetoric is less threatening than those of the past, its requirements from Eastern Europe are no less encompassing. The Brezhnev Doctrine has not been abandoned.¹⁴⁷ If the USSR were to join the GATT and the IMF, thereby integrating itself into an international division of labor, two of its four mechanisms of control over Eastern Europe — military domination and economic integration — would be severely weakened. The USSR would not be able to intervene militarily into Eastern Europe, because this would undoubtedly result in severe economic sanctions, which could be debilitating if the Soviets achieved economic interdependence with the West. Perhaps more significantly, Eastern Europe's economic integration with and dependence on the Soviet economy would be dramatically loosened. While this might relieve the USSR of an economic burden, it would also weaken an important military alliance.

Mr. Gorbachev often analogizes his role as General Secretary of the Soviet Union to being captain of a ship. One commentator has implied that by joining the GATT Gorbachev would be seeking to navigate the waters of free trade by following Circe's advice to Ulysses on how to sail safely past the Sirens this advice was, "[H]ave yourself lashed hand and foot against the mast."¹⁴⁸ Yet, just as the albatross crippled the ancient mariner, so too might Soviet dominance over Eastern Europe prevent Gorbachev from setting sail on the course he has mapped out.

Indeed, at some point in the not too distant future the USSR will need to intervene militarily into Eastern Europe, and this will once again lead to the political and economic isolation of the USSR. The ultimate irony may be that Marx and Engels' opening statement in the Communist Manifesto is now most applicable to the USSR and Eastern Europe.¹⁴⁹ Mr. Gorbachev must indeed be haunted by the spectre of a workers' revolution. If such a revolution were to occur, in Poland for instance, it would necessarily result in some type of Soviet intervention into Eastern Europe. Such an intervention would provide an insurmountable political hurdle to Soviet membership in the IMF and the GATT.

VII. CONCLUSION

Mr. Gorbachev has already scaled obstacles which many scholars believed to be unconquerable. If the USSR were to join the IMF and the GATT, this would serve to commit it to pursuing Mr. Gorbachev's policy of perestroika as well as the integration of the USSR into the world economy. While joining the GATT, in particular, would require certain

¹⁴⁷ See Gaiti, *supra* note 121, at 970.

¹⁴⁸ See Roessler, *supra* note 46, at 287.

¹⁴⁹ See S. BIALER, *supra* note 95, at 231.

economic costs without necessarily providing many economic benefits (because of the legal loopholes contained in the articles of the GATT), Soviet policy makers have nevertheless expressed their willingness to pursue the reforms needed to achieve membership. In spite of this, it is unlikely that the USSR will be allowed to join these organizations due to the opposition of the United States and a number of its allies. Furthermore, while Soviet policy makers may be willing to pay the economic costs of joining the GATT and the IMF, should the political costs be seen as including a loss of Soviet dominance in Eastern Europe, such a realization would generate tremendous opposition within the Soviet hierarchy to joining these organizations.

The consequences of joining the IMF and especially the GATT would be to make legally binding the policies of perestroika. If the USSR signed the GATT's Articles of Agreement, it would be committing itself to reforming and integrating its economy. Tying the hands of Soviet policy makers through this international legal agreement would bolster Mr. Gorbachev's power by limiting the maneuverability of his political opposition. In all likelihood, however, the USSR will not become a member of either the GATT or the IMF in the near or immediate future. The political and economic barriers to Soviet membership are formidable.