The Soviet Union in World Trade

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At Moscow on June 29 President Nixon joined with Soviet leader Brezhnev in signing a ten-year pact. Building upon the three-year commercial agreement of October, 1972, between the two countries, the pact proposed the further promotion of Soviet-American commerce by providing a framework for the discovery of new economic opportunities and the fostering of trade activities, including cooperation by American and Soviet organizations in joint enterprises.

In assessing the prospects of Soviet-American trade relations, it is essential to consider carefully the world economic situation, the Soviet Union's role as a world trader, and also the stance of the United States vis-à-vis the contemplated commerce.

The history of Soviet-American postwar economic relations reveals an evolving Soviet position in world trade and an underlying American ambivalence derived from political factors. The USSR at the war's end asked the U.S. for a loan of $6 billion to assist in the work of rehabilitation of its devastated economy. Washington decided, however, that the Soviet Union should be caused to pay in political concessions for any American assistance. Moscow did not comply, it did not get the loan, and the cold war began. In 1951, when the Korean War was raging, the Truman Administration rescinded the most-favored-nation (MFN) treatment (that is, nondiscriminatory tariff treatment) that had been extended to the USSR in 1935, and the United States proceeded to take the lead in evolving and building up a system of controls (COCOM) exercised by itself and its allies over exports to Communist countries.

During the first half of the 1950's the USSR busily engaged in repairing the deficits in its trade with the capitalist world by expanding its commercial exchanges with Eastern Europe—and, notably, with the Chinese People's Republic. The Soviet Communist Party Congress of 1956 committed the nation to an economic strategy of expanding its trade through extensive economic cooperation and collaboration with all three sectors of the world arena: the socialist bloc, the developing countries of the Third World, *and* the capitalist countries. In June, 1958, Premier Nikita S. Khrushchev requested that the United States extend long-term credits to the Soviet Union. The State Department voiced its disapproval on the ground that American exports of advanced equipment would "strengthen a political enemy." No loan was granted.

In 1957, however, the USSR had reached an agreement with Japan governing trade turnover and payment arrangements. Similar trade agreements with various West European countries followed, and Soviet trade with America's allies began to manifest substantial growth—and further promise. As John F. Kennedy readied himself to assume the Presidency in 1961, he was presented with a report of foreign economic policy prepared by a task force headed by George W. Ball which recommended a fundamental change of American policy on trade with Soviet bloc countries. Although the task force reported that Americans considered trade with Communist countries to be "immoral, dangerous, and of doubtful economic benefit," it also said that such trade was going to become much more important in the decade ahead because other Western countries found it advantageous and were refusing "to follow docilely the tariff discriminations and export limitations on Communist trade imposed by American law." The task force held that the time had come for the United States to engage itself and give direction to a development that was inevitable.

Trade figures gave graphic confirmation of that analysis. U.S. exports to the Soviet bloc totaled $57.8

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million in 1961—and dropped to $49.6 million in 1962. In contrast, European two-way trade with the bloc was valued at $4.2 billion in 1961, as compared with $3.8 billion the year before; and the leaders in that trade were America's close associates—West Germany, Britain, France. Nor was Western Europe the only sector of the "free world" building up commerce with the USSR. Soviet-Japanese trade, valued at $40 million in 1958, reached the level of $219 million in 1961.

In an article published in August, 1962, Khrushchev raised the question of "the possibility of economic collaboration and peaceful economic competition not only between individual states with different social systems but between their economic associations." His eyes were on the Common Market—but Japan was not being ignored. In that same month of August a group of leading Japanese businessmen visited Moscow to explore the potential of the Soviet market. One contract signed on that occasion provided for the construction by Japanese shipyards of forty-five vessels for the Soviet Union at a price of nearly $100 million; another provided for the purchase by Japan of a substantial quantity of Siberian timber. This was business of attractive dimensions.

By 1963, partly because of the mounting costs of the military intervention undertaken in Vietnam two years before, the United States was beginning to experience serious deficits in its balance of international payments. The Soviet Union, for its part, had a bad harvest that year and in September purchased $500 million worth of wheat from Canada. The American holding of wheat at that time totaled 2.3 billion bushels, subsidized by the U.S. Government at the rate of fifty cents per bushel. The Kennedy Administration showed interest in selling some of the American surplus to the Soviets. The sale was opposed by ex-Vice President Nixon who, in a radio address of October 8, said that the United States would be "harming the cause of freedom" in making such a sale. "Why should we pull them out of their trouble and make communism look better?" he asked. He said that the projected sale would enable the USSR to channel its energies into war production and use American tax money "to subsidize communism." President Kennedy nevertheless authorized the sale of $250 million worth of the nation's $1 billion surplus stock. Congress threatened to bar the granting of U.S. credits for the deal but backed down when there was read posthumously a letter from President Kennedy attacking the draft bill as "against the national interest."

The grain deal proved to be a one-shot exchange. Although commercially profitable, it had patently aroused strong opposition in the American domestic arena. Referring to the sale, the Republican electoral platform of 1964 charged that the Democratic Administration had "misled" the nation "and forfeited a priceless opportunity to win concessions for freedom," and that it had encouraged "America's oldest friends" to trade with Cuba and other Communist nations.

Our allies continued to develop their commercial exchanges with the Communist bloc. Significantly, a tidy portion of the Soviet export trade was in petroleum. The USSR in 1958 had embarked upon a major program to expand the country's oil output. Production was in fact rapidly built up (15 per cent in 1959), and Western Europe proved a hungry customer. By 1965 the USSR was exporting an average of 580,000 barrels daily to that market.

The most significant development at that juncture was in the Soviet-Japanese economic relationship. In 1965 Moscow engaged Tokyo in talks aimed at enlisting Japan's aid in the development of mineral resources in Siberia. Japan has to import most of its industrial raw materials, and Japanese industry had a natural interest in the Soviet proposals. In January, 1966, Foreign Minister Etsusaburo Shiina visited Moscow and signed a five-year trade agreement that provided for substantially expanded commerce between the two countries. In July in Tokyo Soviet Foreign Minister Andrei A. Gromyko and Shiina agreed in principle on joint Soviet-Japanese development of certain Siberian resources.

In April, 1965, President Lyndon Johnson had set up a special commission to study the possibilities and implications of an expansion of trade with the East European bloc, including the USSR, but legislation to liberalize trade with the bloc was killed the following year by Wilbur D. Mills, chairman of the House Ways and Means Committee. In October, 1966, the Johnson Administration acted to increase exports to the Soviet bloc anyway, by easing controls on some four hundred "nonstrategic" items. Trade between Western Europe and the USSR in 1966 reached $2.3 billion, up $100 million from the year before; American trade with Eastern Europe, *including* the USSR, totaled only $200 million. There was no further major progress under the Johnson Administration :The United States was busily—and unprofitably—engaged in fighting "communism" in Southeast Asia, far from the Soviet doorstep.

Nor was there early change under the new Republican, Nixon Administration in 1969. When the Ford Motor Company in 1970 became interested in participating in construction of the giant Kama River truck factory, designed to produce 150,000 units per year, Defense Secretary Melvin Laird ominously expressed the fear that trucks from that factory might well be handed over to the North Vietnamese to help them move military supplies down the Ho Chi Minh trail. Ford backed away.

But the changing character of Soviet foreign trade was a fact of international economic life that could no longer be ignored. Where the USSR's combined imports and exports in 1946 totaled only U.S. $1,422 million, by 1950 the figure had more than doubled to $3,249 million; in 1960 the trade turnover reached $11.19 billion. In 1971, the year of economic confrontation in the capitalist world, the USSR's two-way trade totaled $26.28 billion; and significantly, where Soviet trade with socialist countries had accounted for 73.2 per cent of the total in 1960, it was only 59.3 per cent in 1971.

At this juncture Washington made a 180-degree policy shift. The Department of Commerce first approved the licensing of $500 million, and then, in November, 1971, of another $500 million, to finance *possible* sales of heavy equipment to the Kama River plant. On the second occasion the Department explained: "The immediate effect of today's licensing action will be to enable United States business to compete with foreign suppliers" for the Soviet market. For the U.S. Government the shift of political stance was to be regarded as virtually revolutionary.

The President's visit to the Soviet Union in May, 1972, again revealed the American ambivalence respecting Soviet-American trade. The American side undertook to win *political* advantage at Moscow by using a combination of political and economic leverage. One premise underlying the American tactics was apparently that, given the prior show of American amiability toward Peking and presumed Soviet economic needs, Moscow would not only accept American terms for settlement of the wartime Lend Lease debt (a settlement held essential for "normalization" of economic relations) and disadvantageous terms for economic accords, but would also help the United States settle the Indochina war—to the American satisfaction.

The outcome of the Moscow visit clearly showed that the Americans had misjudged their antagonist: there was no agreement respecting either the Lend Lease debt or trade. Nor did Moscow undertake to bend Hanoi to the American will: The U.S. was left with the costly Indochina war still on its hands. Substantial economic results of the Nixon visit came later in the form of the $1 billion grain deal and the overall agreements of October providing settlement of the USSR's wartime Lend Lease account and the Nixon Administration's promise of MFN treatment for Soviet goods.

The trade wrangles that afflicted the capitalist sector of the world economy from 1971 on, and the monetary crisis of February-March, 1973, further whetted the appetite of the U.S. Government for Soviet trade. From early 1973 the United States began pressing its allies to make more exceptions to the "strategic" materials banned for export to the Soviet Union by the COCOM list that the U.S. had in earlier years labored so hard to broaden to near universality. But it was the Arab-Israeli war of October that introduced a truly radical change in the world economic situation. The capitalist sector of the industrialized world was faced with new, serious difficulties of obtaining access to essential energy supplies—and it was suddenly discovered that shortages also threatened a goodly number of other industrial raw materials.

The Soviet Union was the beneficiary of the changed supply-demand situation, for it is rich in natural resources. Occupying one-sixth of the world's land mass, it claims over one-half of the world supply of coal and peat, and possesses roughly one-third of the world's natural gas. Its petroleum deposits have not yet been adequately surveyed, but they are known to be vast—and with the recent discovery of rich new deposits in western Siberia it appears possible that the Soviet oil holdings may rival those of the Middle East. The country is also rich in valuable industrial minerals. Unlike Japan, it does not have to import iron ore: it has known reserves of some 100 billion tons. The Soviet Union possesses abundant manganese ores, and in 1970 produced 6.8 million tons of the metal—approximately 38 per cent of the world total. That year it also produced 3 million tons of chromium. Since the launching of the first Five-Year Plan in 1928, the Soviet Union has vastly increased the output of nonferrous metals, and now exports considerable quantities of aluminum, lead, zinc, cobalt, copper, platinum-group metals —and, nowadays, gold. All of those products, including gold, command the very high prices of the present seller's market.

Given the developing energy crisis and the estimate that the energy requirements of the United States would probably double by 1985, logic suggested that the United States would be among those countries that look with interest on the USSR's petroleum and natural-gas resources. In early November, 1972, in fact, three big American companies announced that they were negotiating a deal with the Soviet Union that would involve an investment in plant of $3.7 billion, in part to be shouldered by the Export-Import Bank. The American East Coast in return was to receive liquefied natural gas over a period of twenty-five years. The companies indicated that they anticipated the agreement would be concluded within sixty days.

But this was not to be—at least not so soon. Shortly before, on September 27, the National Conference on Soviet Jewry—representing major American Jewish organizations—issued a demand that, for so long as emigrating Soviet Jews were subjected to "extortionate" emigration taxes, the United States should withhold trade concessions and credits to the Soviet Union. In due course, Senator Henry Jackson introduced an amendment to the pending Trade Act which would deny trade benefits to "non-market-economy" (socialist) countries which might deny the right of free emigration to their citizens.

Enlisting sentiments that were akin to those of the immediate postwar period, Senator Jackson's amendment won broad support in Congress, and the long-mooted Trade Act legislation remains stalled—even though to the prejudice of projected trade negotiations with America's "free-world" trade partners. The natural-gas undertaking is also held up. That project, and another of similar dimensions envisaging joint American and Japanese participation in the exploitation of natural-gas deposits in Yakutia with delivery of the product to Japan and the *West* Coast of the United States, came under the scrutiny of a Senate subcommittee on multinational corporations. On June 19, 1974, the subcommittee chairman, Senator Frank Church, said that "there is no justification at all for the United States Government financing of these huge natural gas projects in the Soviet Union." The undertakings of these projects, he said, "would make the Northeast and the West Coast of the United States dependent on natural gas imported from the Soviet Union." He made no reference to the statement of the Federal Power Commission a week earlier that American natural gas supplies in the coming months would be 10 per cent under the demand and that the shortage would develop into a "severe crisis" in the next five years, and he did not mention America's regular imports of such raw materials as bauxite, chromium, the platinum-group metals, and even petroleum. He was obviously concerned with a special kind of dependency.

In the realm of legislation, or where the actions of the Export-Income Bank are concerned, the Congress can—and does—act to retard the liberalization of Soviet-American trade. In the meantime, with the Administration's open blessing, American business interests are engaged in exploiting the Soviet market in anticipation of profit. In early October, 1973, top American and Soviet officials and representatives of important American business combines met in Washington to determine measures for expansion of American-Soviet trade, and American business associations joined with Soviet trade organizations to form a Soviet-American Trade Council with that end in view.

Individual trade deals go forward. Only a relatively short time ago Ford Motors and then the Mack Truck Company denied themselves participation in construction of the Kama River truck complex. However, the Swindler-Dressler Company, a Pullman subsidiary, undertook a share of the designing work and contracted to provide $45 million worth of the equipment, and in September, 1973, an Italian subsidiary of American Chain and Cable Company picked up a $22 million order to provide aluminum foundry equipment for the same project. Occidental Petroleum Company had in July, 1972, entered upon a big overall contract for the supply of industrial equipment and technological aid to the USSR in exchange for Soviet metals and energy materials. In September, 1973, a syndicate of ten American banks agreed to lend the USSR's Bank for Foreign Trade $180 million for eleven years for the financing of construction of a fertilizer complex (estimated to cost $2 billion) in the USSR, in service of the Occidental contract; in May, 1974, the Export-Import Bank granted a loan of the same amount for the same project.

In late May the Soviet minister for the chemical industry stated at a news conference in Moscow that the Ministry had $500 million in new industrial deals under negotiation with American companies. And, indeed, at the end of June Occidental entered into four more contracts for implementation of a $20 billion deal it had reached with the USSR in April, 1973, for the barter of American for Soviet chemical products. About the same time the International Paper Company contracted with the USSR for the provision of American paper-manufacturing technology in exchange for Soviet timber. The Soviet Union possesses roughly one-third of the world's softwood timber. As the world supply of paper has beome notoriously tight, the American paper industry had discovered a new source of pulpwood. The "economic associations" referred to in Khrushchev's 1963 concept had turned out to include American big business and multinational corporations.

The economic dealings have naturally been reflected in trade figures. Where the October, 1972, agreements envisaged a trebling of Soviet-American trade from the $500 million mark of the three-year 1969-71 period to at least $1.5 billion for the 1972-74 period, the exchanges totaled $1.4 billion in 1973 alone—double the figure for 1972. But Soviet imports totaled $1,190 million, as compared with exports of only $214 million to the United States. There is patently good reason for Moscow to desire American MFN treatment for Soviet products. With such nondiscriminatory tariff treatment, the Soviets could probably sell more high-tariff goods in the American market.

MFN treatment is not to be viewed, however, as a vital factor. Even without nondiscriminatory tariff treatment, areas of mutually profitable exchange are present. The basic tariff rates on energy materials and other industrial raw materials are generally low in any event, and the costs of such Soviet goods would not be appreciably increased—and the competition from other suppliers will often be sympathetic, or weak. Moreover, the world market prices for various Soviet products are mounting steeply and bringing Moscow greater profits. Soviet oil exports, for instance, totaled 118.3 million metric tons in 1973, up slightly over 10 per cent from 107 million metric tons in 1972—but the *value* of the exports increased from 1.7 billion rubles in 1972 to just over 2.4 billion rubles in 1973—an increase of 44 per cent. Of its 1973 petroleum exports, $132 million worth went to Italy, $115 million worth to West Germany, and $76 million worth to the United States. And one somewhat ironic aspect of the matter is that Moscow pays for Soviet purchases in the United States in part by the sale of gold. It is reported that Soviet gold entered into the 1972 wheat deal; and American commercial interests in the first three months of 1974 imported from the USSR 351,368 ounces of the metal, not at the official American price of $42.22 per ounce, but at an average of $130.88 per ounce (March price: $168.40 per ounce).

At the same time that the Soviet trade with the U.S. has expanded, its commerce has continued to flourish elsewhere in the capitalist world as well. West Germany has become the USSR's most important capitalist trade partner, and in March of this year the two countries agreed to undertake a new type of venture; they proposed to form joint companies to operate in *third* countries with Soviet-German capital, management, and production. Japan has shown itself a strong competitor for Soviet trade opportunities. By 1970 Soviet-Japanese commerce had increased twenty times over its 1958 level, with the trade for the five years 1966-70 totaling $3.321 billion. In September, 1971, the two countries signed an agreement for commercial exchanges for 1971-75 in the amount of $5.2 billion. The direct exchanges were accompanied by agreements for "economic cooperation." The first such agreement had been for Japanese participation in the development of the forestry resources of eastern Siberia; the second, signed in January, 1970, provided for Japanese cooperation in construction of a port near Nakhodka, on the USSR's Pacific Coast. In April, 1974, Japan reached a preliminary agreement with the Soviet Union for the grant of a $1 billion loan to finance three separate projects for the development of natural-gas and coal resources in Yakutia and for a projection of the earlier undertaking for exploitation of Siberian timber resources. By those arrangements Japan would benefit by imports of coal, gas, and timber products.

The capitalist world is in flux—and in serious difficulty. The West European, Japanese, and American economies alike are being buffeted by rising prices—not least, that for petroleum—and their customary markets are consequently shrinking. In June the Conference Board—an American business research organization—warned that inflation in the United States and elsewhere was approaching the "crisis" stage. The existing conditions aggravate political instability and are obviously loosing powerful forces of change. The capitalist sector of the world economy is not an integrated whole in which one element supports the others. Within that sector the United States, given its own natural resources and industrial strength, is obviously in a better position than the individual EEC countries, or Japan, to withstand some of the impending economic shocks; but its immunity is still only relative.

In the socialist world (China always apart), on the other hand, there is a large measure of coordination in the economic field in particular (not to mention the political); and given especially its possession of primary materials needed by industrialized countries, the Soviet Union has been able to build up a strong competitive trade position. It is in large measure independent of sales of manufactured goods in the capitalist market—and it is able to export industrial raw materials that the capitalist countries require. Buttressed by the East European socialist bloc, the Soviet Union, which had earlier become the world's second strongest economic power, has now become a trading power of major importance. The ten-year pact signed at Moscow by President Nixon was an implicit acknowledgment of that hard economic reality.

The potential of that hard reality bears heavily on the future. It demands serious consideration. In service of the economic strategy evolved in the 1950's the Soviet Union and other socialist-bloc countries have been engaged for nearly two decades in implementing a major, coordinated program for the buildup of trade relations with the developing countries, with efforts directed in large part to the state sector of those countries' economics. By the grant of low-interest credits and in particular by the provision of complete industrial plants to the recipient countries, the socialist bloc has scored important advances in the chosen field. Soviet exchanges with the developing nations made up 7.8 per cent of its foreign commerce in 1960; by 1971 that trade amounted to 16.8 per cent of the total.

For the immediate present Moscow's prime focus of attention is on the commercial relationships between the capitalist and socialist worlds. Given especially the growing economic nationalism of the Third World, however, the evolving relationship between the socialist bloc and the developing countries will almost certainly become of considerable importance in the world scene. Insofar as the Soviet Union, as a collateral measure, succeeds in building up strong economic relations with critical elements in the Third World sector, it is laying a strong foundation for further economic progress. For the coming confrontation, in the economic revolution of the future, is between the developing nations and the industrialized states; and those industrialized countries that have worked out satisfactory political and economic relations with the Third World in advance of the confrontation will enjoy substantial advantage.

In international economics, even as in domestic economics, planning has proved profitable for the Soviet Union. In that respect the Soviet Union presumably counts itself lucky for being a "non-market-economy" country.