U.S. ROLE IN EAST-WEST TRADE: AN APPRAISAL

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Abstract. This article reviews major factors involved in U.S. participation in East-West trade, including centralization and the structure of decision making in Eastern Europe, tariff and nontariff barriers, and the significance of financing and the level of debt in the Socialist countries. It also examines ways of ascertaining market potentials, new forms of trade, such as industrial cooperation and countertrade arrangements. It concludes with an assessment of outstanding issues in the future development of East-West trade.

INTRODUCTION

With the advent of détente and the 1972 Trade Agreement with the USSR, there was great expectation in the early seventies that East-West trade would flourish and that the U.S. would capture a share of the Eastern1 market that would be commensurate with its size and importance in world trade. To that point it had lagged considerably behind the other major industrialized nations. For the period 1971-1973, the United Nations data, as reported by the Bureau of East-West Trade, show an increase in the U.S. share of Industrialized West (IW)2 exports to the Eastern bloc: in 1971, the U.S. share was only 4%; in 1972, it had more than doubled to 8.7%; by 1973, it accounted for 14.7% of the Industrialized West exports to the Eastern markets. Import shares for the same years were: 1971—2%; 1972—4.5%; and 1973—4.3%

The 1972 Trade Agreement with the USSR was the first attempt by the U.S. to establish a general bilateral trade agreement with a communist country; and it included provisions for the granting of Most Favored Nation (MFN) status, for general cooperation and an increase in trade (an anticipated tripling over a three-year period), for payments in a convertible currency, and for supervision of the Agreement by the Joint U.S.-USSR Commercial Commission.4 The Soviets, however, never put the Agreement into effect because the necessary legislation in the U.S. culminated in the Trade Act of 1974, parts of which were unacceptable to the Soviets, particularly Section 402 (Jackson-Vanik Amendment), which links MFN status to the right of free emigration, and Section 613, which places a limit on the aggregate amount of Eximbank credits available to the Soviet Union.

For the 1974-1976 period, the U.S. share of Industrialized West exports to Eastern Europe was as follows: 1974—9%; 1975—10.5%; and 1976—12.4%. Even though the U.S. share of IW exports of manufactured goods is small in comparison to several of its competitors, it has been increasing (sales of U.S. subsidiaries are not reflected in these shares). The U.S. share of imports for the same period was: 1974—6%; 1975—4.7%; and 1976—4.9%. In actual dollars, exports grew from 1.5 billion in 1974 to 3.5 billion in 1976. The share of manufactured goods of total U.S. exports improved for 1974 when it rose from a low 21% in 1973 to 40% in 1974. For 1975, it declined to 35% and for 1976, to 30%. Imports, however, for the same period declined from $900 million in 1974 to $800 million in 1975, and they slightly exceed $800 million in 1976.5 Thus, it seems that, without a bilateral trade agreement, without Most Favored Nation status (MFN), and with limitations on government credits, U.S. involvement in East-West trade has continued to

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grow in dollar amount if not in market share. Whether it will continue at its present pace, however, is a matter for speculation.

Soviet Foreign Trade Minister Patolichev recently announced at the July 1977 meeting of the U.S.-USSR Joint Commercial meeting in Washington that Soviet imports of U.S. manufactured goods would be cut by 50 per cent in the coming year. At every opportunity the Soviets have brought up the lack of MFN and government credits as serious obstacles to further development of trade. In the U.S., businessmen have supported the granting of MFN and the expansion of government credits in an attempt to equalize competition since their West European and Japanese competitors already have these advantages in dealing with the East Europeans. Supporters of the Jackson-Vanik amendment, however, suggest that where trade is profitable, it will continue, and, also, that that is the amendment's best justification. Patolichev, on the other hand, points out that a significant decline in trade has not been reflected in the statistics yet because contracts agreed upon in the past are just now being fulfilled. Statistics may in fact already reflect some of the threatened decline in U.S. sales to the Soviet Union since U.S. data for the first third of 1977 indicate a 6% decrease in U.S. exports of manufactures to the USSR as compared with the first third of 1976. For the same period, U.S. exports of manufactures to the other East European countries declined 11%. Imports, on the other hand, have increased for that period from both the USSR (40%) and the other East European countries (3.5%).

One of the principal difficulties in assessing the direction and future potential of East-West trade is that policy decisions are frequently based upon political—rather than economic—considerations. This is true to a certain extent for both sides, but especially in the East where it reflects the structure of foreign trade in the East European countries. In the Soviet Union, foreign trade is a monopoly of the Foreign Trade Ministry, and it is administered through foreign trade organizations (FTOs), each of which is the sole organization that is authorized to import or export products of a given category. At present, most of the FTOs are under the direct control of the Foreign Trade Ministry; but there have been reports of a reorganization that would move some of the organizations out of the Ministry and place them under the control of the industries that they serve. This is viewed in the West as a positive reform since it would put the officials who purchase equipment in closer touch with the end users.

The dominant feature of the Soviet foreign trade system, as it now operates, is the centralization of the decision-making process. The five-year plan—and its annually amended edition—is formulated by Gosplan (the State Planning Commission); and the Foreign Trade Ministry operates within these parameters, issuing permits for imports and exports and supervising the settlement of the subsequent transactions. The Foreign Trade Bank handles all the necessary banking transactions involved in foreign trade.

The objectives of foreign trade, as set by Gosplan, reflect not only the economic but also the political goals of the Soviet Government. Imports are made for the purpose of supplementing areas of inadequacy in Soviet production as well as for the modernization of Soviet industry. Exports, on the other hand, are not viewed as a possible means of expanding domestic production, but rather, for the purpose of earning hard currency to pay for imports, or to meet bilateral commitments to the Council for Mutual Economic Assistance countries and to developing countries. The latter two are, to a large extent, political objectives.

In discussing the structure of foreign trade in Eastern Europe, the tendency is to deal primarily with the Soviet system, presenting that as a model for the systems in the other countries. This is valid to a point, but there have been significant modifications in some of the more progressive of these countries.

All of the other East European countries have experimented with some form of decentralization of foreign trade, and this may have influenced the reported reorganization of