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## ***MOST FAVORED NATION STATUS: TRADE WITH COMMUNIST COUNTRIES***

### **INTRODUCTION**

While the main focus of congressional debate this year concerning the framework of detente will be military policies, U. S. commercial ties with the East (linked directly to U. S. political and security interests) will also be reviewed. The new U. S. openings to the People's Republic of China (PRC) focuses attention once again on the issue of extension of most-favored-nation (MFN) status to non-market economies and has hastened discussion of this key trade principle.

The Jackson-Vanik Amendment of the Trade Act of 1974 currently prohibits the President from extending most-favored-nation status to any non-market economy which practices discriminatory emigration policies unless he receives "assurances" from the government that their policies are aimed toward a principle of free emigration. Soviet actions in the early 1970s gave rise to the linkage of human rights and commercial policies in U. S. legislation. But with the recent quest for entrance to the "China market" the Administration is subject to business pressures to lift the MFN restrictions and thus ease implementation of the normalization process with the PRC. The Administration to date has made no policy statement concerning MFN other than to urge that the U. S. follow an "evenhanded" policy in its commercial relations with the Soviets and Chinese.

The positions taken in support of and in opposition to the Jackson-Vanik amendment which surfaced in 1973/1974 remain virtually unchanged. After a brief examination of the history of MFN in the U.S. commercial policy, this paper reviews the status of the USSR and the PRC, as well as the "dilemma" the U.S. faces in determining whether or not to extend to MFN to these countries.

## MFN AS A COMPONENT OF U. S. COMMERCIAL POLICY

The U. S. application of the most-favored-nation principle in international trade dates back to 1778 with the signing of a joint commercial agreement with France. The treaty provided that:

The Most Christian King and the United States engage mutually not to grant any particular favor to other nations, in respect of commerce and navigation, which shall not immediately become common to the other party...which shall enjoy the same favor, freely, if the concession was freely made, or on allowing the same compensation, if the concession was conditional....<sup>1</sup>

The U. S. thus adhered to a "conditional" MFN policy whereby each party agreed not to grant any exclusive favors to a third party. Similar provisions were included in commercial treaties signed with Prussia in 1785 and Sweden in 1793. It is important to note that MFN treatment does not imply a status synonymous with its name. In other words, most-favored-nation treatment affords a third party the same trade privileges that the benefactor shares with all other trading partners receiving MFN status.

In 1919 the U. S. Tariff Commission report advocating unconditional MFN, entitled "Reciprocity and Commercial Treaties," concluded that:

The United States should ask no special favors and should grant no special favors. It should exercise its powers and should impose its penalties, not for the purpose of securing discrimination in its favor, but to prevent discrimination to its disadvantage.

It was not until 1923 that the U. S. shifted to a policy of granting unconditional MFN treatment to contracting partners, thus advocating the principle of "equality of treatment." Unconditional MFN status was conceived legislatively in the Fordney-McCumber Tariff Act of 1922, implemented the following year. The move toward this philosophy was prompted by the growing competitiveness U. S. exports faced on the world market as U. S. exports shifted from predominately agricultural goods and into more industrial goods.

The Reciprocal Trade Agreements Act of 1934 incorporated the principle of "equality of treatment" into U. S. domestic law. This Act required the U. S. to generalize all concessions with respect to like products in trade agreed to pursuant to the guidelines set forth in the Act. The President was allowed two exceptions in according MFN concessions, one being in the case of

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1. Jacob Viner, International Economics Studies (Glencoe, Illinois: The Free Press, 1951), p. 19.

foreign discrimination against U. S. commerce, and the other "because of other acts or policies which in his opinion tend to defeat the purpose set forth" in the Act.<sup>2</sup> This second exemption could be taken quite broadly to include any actions which were not consistent with promoting international free trade. Soon after this legislation was enacted the Administration stated that it would consider only those discriminatory actions as pertinent reasons for suspension of MFN.

The most-favored-nation principle is a key element of the General Agreements of Tariffs and Trade (GATT) and was outlined in Article One of the agreement as adhered to by its signatories. This MFN adaptation is perhaps the widest use of the concept. Article One with respect to custom duties or any kind of charges connected with exports or imports declares

...any advantage, favour, privilege, or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like produce originating in or destined for the territories of all other contracting parties.

Qualifications of this provision follow Article One.

#### MFN AND COMMUNIST COUNTRIES

The Trade Agreements Extension Act of 1951 first provided the President with the option of using MFN for political leverage. The Act directed the President to:

suspend, withdraw, or prevent the application of any reduction in any rate of duty, of binding or any existing customs or excise treatment, or other concession contained in any trade agreement...to imports from the Union of the Soviet Socialist Republics and to imports from any nation or area dominated or controlled by the foreign government or foreign organization controlling the world communist movement.

Following this legislation, MFN provisions were next altered by the Trade Expansion Act of 1962 (TEA) which required the President to withhold MFN from "any country or area dominated or controlled by Communism," exemptions being granted for those nations already accorded MFN status. Also the President could grant MFN treatment if he felt such action would promote the independence of that nation from

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2. William B. Kelly, Jr., ed., Studies in United States Commercial Policy (Chapel Hill: University of North Carolina Press, 1963), p. 95.

the sphere of communist influence, thereby furthering U. S. national interests.

On October 18, 1972, the U. S. and the Soviet Union signed an agreement which arranged for the settlement of the Soviet Lend-Lease debt at \$722 million, conditional on enabling legislation by the U. S. Congress which included granting of MFN status. A joint U. S.-Soviet Commercial Commission was formed in 1972, but these new attempts at U. S.-Soviet cooperation were short-lived after American officials learned that the Soviets had begun charging a heavy exit visa fee, ostensibly for repayment of education costs of any citizen wishing to emigrate. Senator Henry Jackson (D.-Wash.), backed by a broad coalition consisting of congressional members concerned over the application of a strong U. S. human rights policy, conservatives warning against the adverse effects of technology transfers to the East, and members of the National Conference on Soviet Jewry, introduced in 1972 an amendment to the "East-West Trade Exchange Act of 1971," stating the provisions which are now included in the Trade Act of 1974.

In spite of the Soviet warnings against U. S. interference in its internal affairs, the House followed Jackson's initiative and introduced similar legislation. Thus, the foundation for the fight against the provision extending MFN to communist countries on a bilateral basis after examination of economic considerations, as included in the Trade Reform Act of 1973 (later renamed the Trade Act of 1974), was laid in 1972. In 1974 the Jackson-Vanik Amendment was, on a roll call vote, supported by 78 senators and 319 House members, denoting a solid consensus on the linkage of emigration and U. S. commercial policy.

Included in Section 402 (a) of the Trade Act of 1974 is the following additional provision concerning non-market economies which maintain discriminatory emigration policies. These countries "shall not participate in any program of the Government of the United States which extends credits or credit guarantees or investment guarantees, directly or indirectly, and the President of the United States shall not conclude any commercial agreement with any such country." This would include funding from any government agency such as the Export-Import Bank.

As a carry-over from the Jackson-Vanik Amendment, Section 613 of the Trade Act of 1974 set an aggregate ceiling of \$300 million for the extension of export credit to the Soviet Union by any U. S. government agency, except the Commodity Credit Corporation, without prior congressional approval.

The Export-Import Bank Act of 1945 was subsequently amended not only in adherence to the \$300 million ceiling but also to require a presidential determination for each transaction of a loan extension to a communist nation in excess of \$50 million. These limits are currently enforced for both the PRC and USSR.

## RECENT CONGRESSIONAL ACTION

In early February 1979, Senator Adlai Stevenson (D.-Ill.) and Congressman Les AuCoin (D.-Oreg.) introduced similar bills which would, if enacted, "facilitate expanded trade with the USSR and the PRC" as perceived by Stevenson, and alter the construction of the Jackson-Vanik Amendment waiver clause in what AuCoin called a "positive" manner.

Both S. 339 and H.R. 1835 advocate two changes in the Jackson-Vanik Amendment waiver clause, Section 402 of the Trade Act of 1974, along with amendments to the Export-Import Bank Act of 1945. The revisions called for in these bills would allow the President to waive the Jackson-Vanik Amendment if he determined upon examination of the actual policies of prospective governments that their actions would lead "substantially" to fulfill the free emigration ideal set forth in the Jackson-Vanik Amendment. Secondly, both Stevenson and AuCoin propose that the waiver period be extended from one to five years with "12-month periods for first-time waivers."

Section 613 of the Trade Act of 1974, which currently places a ceiling on credit extension specifically to the USSR, would be deleted under the provisions of both bills. Additionally, these bills call for the revision of the Export-Import Bank Act of 1945, as amended, raising the limit prior to a required presidential determination from \$50 to \$100 million and would raise the aggregate ceiling for all communist nations to \$2 billion.

In the press release accompanying the summary of Senator Stevenson's bill, the Senator notes that granting MFN to the PRC will not immediately render that nation capable of financing all of its imports through a sudden surge in exported commodities. Adhering to the Administration's policy of maintaining an "even-handed" policy in commercial relations with the USSR and the PRC, Stevenson continues by stating the important role the Export-Import Bank financing will play, yet he does not mention the actual emigration policies of the two nations nor their general human rights positions, to which all lending must give consideration.

Congressman AuCoin made the following statement on the House floor preceding the introduction of his bill:

Trading with a nation, and granting that country most-favored-nation status, does not mean we approve of that nation's policies, whether emigration or economic. It simply means we have equal opportunities to exchange goods on an equal basis for the mutual benefit of both parties....This is truly a situation where we have everything to gain and nothing to lose by taking this action. (Congressional Record, February 5, 1979, p. H 454.)

The remainder of this discussion will address the notion of the

equality of benefits as expressed above by Congressman AuCoin. It appears questionable that a precise cost/benefit analysis is quantifiable in this context, much less that one can ascertain any concrete results in terms of the true beneficiary.

## POLITICAL CONSIDERATIONS

Even the most simplistic definition of international trade assumes that the two or more nations engaging in it expect to benefit mutually from the exchange. One must first consider the underlying motive for seeking foreign commercial ventures, as this determines the ultimate benefits a government derives from the exchange.

A noted Soviet authority on foreign trade was quoted in 1973 as having said;

Due to the basic antagonism between communism and capitalism, trade between the East and West will always be influenced, if not dominated, by political considerations and motivations. The USSR's foreign trade policy is an integral part of its foreign policy.<sup>3</sup>

One can go back further to 1957 where the following statement was attributed to Nikita Khrushchev: "We declare war upon you (the United States) in the peaceful field of trade." Can the U. S. now assume this declaration is no longer valid?

An American Soviet scholar, Robert Loring Allen, concluded his 1960 study with the same basic premise:

The Soviet Union uses all of its foreign economic policies and relations consistently and exclusively to promote the interests of the Soviet state and the philosophy on which it is founded....Trite as this may seem, it remains highly important to bear in mind that no other nation in the world has this posture.<sup>4</sup>

As trade is a state monopoly in both the USSR and the PRC, it would appear to be merely an appendage of an overall domestic or internal policy aimed towards promoting industrialization and military fortification.

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3. Quote attributed to A. P. Chevynkov, Congressional Record, 93rd Cong., 1st Session, July 10, 1973, p. H 5896.

4. Robert Loring Allen, Soviet Economic Warfare (Washington, D.C.: Public Affairs Press, 1960), p. 3.

Daniel Yergin, a proponent of increasing Soviet exposure to the industrialized West surprisingly raises no serious objections to the Jackson-Vanik amendment. He cogently summarizes the views of many in stating:

When all was said and done, the Jackson-Vanik amendment was seeking only a small concession, affecting not internal affairs, but rather the point of tangency of internal and external affairs. It was merely asking the Soviets to live up to what they had, in any event, said they would live up to in the form of their general assent over the years to the Universal Declaration of Human Rights.<sup>5</sup>

During the 1973 debate on this linkage of MFN to emigration policies, George Meany testified before the Senate Foreign Relations Committee as spokesman for the AFL-CIO. While opposed to granting MFN to communist nations for fear of added competition from products produced with "slave labor" he, too, stressed the point that the U. S. would be giving up a trade concession for nothing in return. Meany declared:

...we're against granting the Soviet Union most-favored-nation treatment. It is not one of our most favored nations. Yet, it is being proposed today that we grant the Soviet Union MFN status in exchange for their agreement to liberalize their emigration policies. In other words, we will bribe the Soviet Union to do what it is already obligated to do under international law.<sup>6</sup>

## MFN AND HUMAN RIGHTS

Although the debate involving MFN and the Trade Act of 1974 preceded the Carter Administration, the President gave his support to this linkage early on, as in fact would be consistent with his strong human rights stance. During the second round of debates between presidential candidates Gerald Ford and Jimmy Carter on October 6, 1976, Carter addressed the issue of morality in foreign policy and declared:

In the case of the Helsinki agreement--it may have been a good agreement at the beginning, but we have failed to enforce the so-called basket three part, which ensures the

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5. Daniel Yergin, "Politics and Soviet-American Trade: The Three Question" Foreign Affairs, Vol. 55 (April 1977), p. 531.

6. Department of International Affairs, AFL-CIO, Free Trade Union News, Vol. 29, No. 9 (October 1974), pp. 6-7.

right of people to migrate, to join their families, to be free, to speak out.

In his inaugural address, President Carter preached of a firm U. S. human rights policy stating:

Our commitment to human rights must be absolute...because we are free, we can never be indifferent to the fate of freedom elsewhere. Our moral sense dictates a clear-cut preference for those societies who share with us an abiding respect for individual human rights.

As recently as December 1978, the President reiterated his strong commitment to this philosophy in proclaiming:

As long as I am President, the Government of the United States will continue throughout the world to enhance human rights...no force on earth can separate us from that commitment.

The freedom of a citizen of one country to emigrate from that country should be one of the most fundamental guarantees granted with respect to human rights. The Soviet Union in 1948 signed the United Nations Universal Declaration on Human Rights and in 1968 agreed to sign the International Covenant on Civil and Political Rights. Article Twelve of this Covenant declared that "everyone should be allowed to leave any country, including his own."

Basket three of the Helsinki Agreements was aimed at promoting the free exchange of not only goods and ideas, but, more importantly, of people. Consequently, the Jackson-Vanik Amendment is in character with the U. S. support of human rights and attempts only to stress that the U. S. will not overlook violations of the above agreements in formulating its commercial policies with respective nations.

Critics of the Jackson-Vanik Amendment are quick to make reference to the immediate decline in emigration from the Soviet Union following enactment of the 1974 Trade Act. As the figures below indicate, however, there has been a small but steady increase since 1975 in the rate of emigration. This number has grown despite the constant reminders by the Soviets that their internal policies are not influenced by American moralist "preaching." Questions growing out of examination of these figures are raised by both opponents and proponents of the Amendment. For instance, some contend that the Soviet Union will never again reach the 1973 emigration rate unless the U. S. extends MFN. But others ask, why should the U. S. now decide to extend MFN when the emigration rates have not approached the Jackson benchmark level of 60,000 per year, nor have the Soviets openly improved their general human rights policies.



### Emigration From the USSR

	Left on Israeli Visa	Direct To U. S.	Direct To Germany	TOTAL
1973	34,818	758	4,400	39,976
1974	20,376	1,029	6,300	27,705
1975	13,721	1,162	5,800	20,683
1976	14,262	2,574	9,600	26,436
1977	16,738	2,047	9,200	27,985
1978	28,864	1,709	8,500	39,073
1979 (1st Quarter)	11,977			

Source: Figures obtained from the Commission on Security and Cooperation in Europe which monitors emigration from countries who were signatories of the Helsinki Agreements.

Notes: The figures in the first column are people who left the USSR on Israeli Visas; 95 percent were Jewish. The 1976 figure for emigration to the U.S. is significantly larger than previous years as it is comprised mainly of Armenians who had planned to enter Lebanon but were unable to because of Lebanon's closed borders. A recent article in The Washington Post, (John M. Goshko, "Dobrynin, U.S. Officials Meet Amid Signs of Easing Trade" April 28, 1979, pg. A10) stresses the significance of an average monthly rate of 4,000 Jewish emigrants from the USSR so far this year. However, at this rate the year end total for 1979 will still fall significantly short of the 60,000 benchmark figure discussed in the Jackson-Vanik Amendment debate.

### ECONOMIC IMPLICATIONS OF MFN

There appears to be a question on the part of some U.S. Government agencies and private organizations engaged in international trade as to the exact economic effect the granting of MFN to the USSR will have. Predictions for continual trade with the USSR and expanded trade with the PRC regardless of their non-MFN status tend to weaken the necessity for granting MFN for U.S. economic gains.

In April and May 1977, the International Trade Commission submitted special reports to the Congress on the impact of granting most-favored-nation status to the Soviet Union and the PRC, respectively. With regard to the Soviet Union the report concluded that by granting MFN to the USSR, U.S. imports were not likely to increase substantially due to the lower tariff rates applied to the majority of products the U.S. imports from the Soviets. The report went on to state that at present the higher U.S. tariffs resulting from non-MFN status for the Soviets were restricting in any noticeable quantity only unwrought magnesium, binoculars, knotted carpets, and electronic valves and tubes. The basis of

this conclusion emerged from the statistics indicating that other western industrialized nations import more of these goods than the U. S., thus the inference that the U. S. would otherwise import these products in similar quantities is questionable.<sup>7</sup> These items the U. S. imports, or would likely import, from the Soviet Union can scarcely be considered vital to U. S. security interests. According to the report, in 1974 U. S. imports from the USSR totaled \$344 million, and of this total, 76 percent was composed of duty-free items, and another 17 percent required only small additional tariffs.

While indicating that by granting MFN to the PRC the Chinese may decide to increase their trade with the U. S., a similar International Trade Commission (ITC) report more importantly states that U. S. trade with China will remain a very minor percentage of U. S. total world trade for many years.<sup>8</sup>

In a letter to Richard Bolling, Chairman of the Joint Economic Committee on April 13, 1978, Secretary of Commerce Juanita Kreps enclosed answers to questions previously submitted to the Department of Commerce regarding the benefits of East-West trade. Among the questions was the following: "What promotion of commercial relations is likely to be effective in terms of credit, relaxed trade restrictions, and improved business facilities?" She replied:

A purely economic analysis suggests that providing of Export-Import Bank credits and Most-Favored-Nation tariff treatment to those communist countries which do not presently receive them (Poland, Romania, and Yugoslavia do) would not directly lead to large increases in U. S. trade with the communist countries.... The economic effect of granting MFN on communist country exports to the U. S. would also be quite small, at least in the near future. This is because a large part of communist country exports--particularly those of the Soviet Union--are raw and semi-finished products which incur low U.S. tariffs even under the non-MFN schedule.<sup>9</sup>

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7. U.S. Congress, 95th Cong., 1st Session, Committee on Ways and Means, Special Report to the Congress and the East-West Foreign Trade Board, U.S. International Trade Commission, April 13, 1977, "Probable Impact on U.S. Trade of Granting Most-Favored-Nation Treatment to the USSR," p. 8-9.

8. U.S. Congress, House Committee on Ways and Means, 95th Congress, 1st Session, Special Report to the Congress and the East-West Trade Board on "Implications for U.S. Trade of Granting Most-Favored-Nation Treatment to the People's Republic of China," U.S. International Trade Commission, May, 1977, p. 3.

9. U.S. Congress, Joint Economic Committee Print, "Issues in East-West Commercial Relations, A Compendium of Papers," 95th Congress, 2nd Session, January 12, 1979, p. 295.

Samuel Pissar, an international lawyer well known for his encouragement of East-West trade, objectively analyses the applicability of the concept of MFN to non-market economies in his book, Co-existence and Commerce.

Most-favored-nation treatment promises--whether exchanged under national legislation, bilateral treaties of friendship, commerce and navigation, or multilateral arrangements such as the GATT--acquire a rather distorted meaning in relations with centrally planned economies.... In a totally planned economy, where the trading party and the regulating body are organic parts of the same whole, neither a most-favored-nation nor a national treatment understanding can amount to more than a theoretical assurance for firms and citizens of the market economy which has granted a reciprocal counter concession.<sup>10</sup>

C. William Verity, American Co-Chairman of the non-governmental U.S.-USSR Trade and Economic Council predicted U.S.-Soviet two-way trade would double in volume from the record 1978 level, regardless of whether or not the Jackson-Vanik Amendment is repealed.<sup>11</sup> U. S. exports to the Soviet Union rose by 39 percent over 1977 figures last year, reaching \$2.25 billion, while exports to China grew to \$818.2 million in 1978.<sup>12</sup> If the U. S. trade with these nations is steadily growing, and no major expansion will accompany the extension of MFN status to the two nations, there would appear to be no economic motivation to hasten such a policy action.

## FINANCIAL CONSIDERATIONS

If granting of MFN to the Soviet Union and/or the PRC, and any expansion in U. S. trade resulting therefrom, is not to become another component of U. S. foreign economic assistance, it is first necessary to determine the economic solvency of the nations. Western industrialized nations have difficulty ascertaining the economic capabilities of centrally planned economies, especially of the Soviet Union as the non-convertible status of its currency makes it difficult to estimate the value of Russian reserve assets. In addition, secrecy surrounds the amount of gold the Soviets possess, although speculated value is \$7 to \$8 billion.

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10. Samuel Pissar, Co-existence and Commerce: Guidelines for Transactions Between East and West (New York: McGraw-Hill, 1970), p. 196.

11. Washington Post, December 8, 1978.

12. "Trade Between U.S., Communist Countries Rose Sharply in 1978", Wall Street Journal, March 15, 1979, p. 20.

Lenin's autarchic statement, "we must save the gold in the USSR, sell it at the highest price....Boast not before but after the battle," should not be assumed to have been buried with him. In 1973 the retiring president of the U. S. Export-Import Bank warned, "it would be short-sighted if the Bank under a new leader decided to provide massive credits to the Soviet Union without getting full disclosure of how much gold and hard monetary reserves the Soviet Union holds." (Washington Post, October 13, 1973) If the Soviet Union does maintain a supply of gold, then the U.S. and other western nations should be demanding payment in gold for all exports to that country.

With respect to the Chinese, the estimates of that country's reserve assets, prior to the recent months of heavy contract purchases was \$2 to \$3 billion, with no hint of gold stockpiles. After a sudden spurt in commercial deals with the PRC, contract offers from the Chinese have declined slightly as the total amount of newly incurred obligations was realized by the government.

A January 1979 study released by the Chase Manhattan Bank estimated a Soviet deficit with western industrialized nations close to \$3 billion in 1978, with a \$2.5-\$3.5 billion debt likely in 1979 and 1980.<sup>13</sup> Figures on the cumulative total of East bloc debt to the West vary in range from \$40 to \$50 billion, but all experts agree the amount will increase.

Examining two key factors in the debt servicing potential of the PRC and USSR, the export potential and potential for reducing imports, provides no assurances for debt elimination.<sup>14</sup> The hard currency earnings of both countries have been recently comprised of raw material, mineral, and textile exports. What additional items for export the West may consider purchasing in large quantities is unclear. Furthermore, imports of capital and technology have risen in both nations. Indeed, the politically motivated quest for high technology goods, along with the necessity of grain and foodstuff imports both in the PRC and Soviet Union, would mitigate against any significant import reduction.

The table below, which exhibits the types and quantities of U. S. imports from the PRC and the Soviet Union over the past five years, clearly shows that even with increased trade between the U. S. and these countries, there is nothing substantial the U. S. needs in

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13. "International Finance," Chase Manhattan Bank, Vol. XIV, No. 2, January, 22, 1979.

14. For a detailed review of the debt servicing capacity of Eastern Europe and discussion of these factors, see Richard Portes, "East Europe's Debt to the West: Interdependence Is a Two-Way Street," Foreign Affairs, July, 1977.

the way of imports (unless there were to be a sudden and surprising growth in the oil export capability of both countries) that would match the importance the PRC and Soviet Union attach to increased credits and technology imports from the West.

U.S. TRADE WITH CENTRALLY PLANNED ECONOMIES: TOP 15 (FOR 1977) EXPORTS AND IMPORTS, 1972-77; BY COUNTRY; AND BY SITC 2 DIGIT COMMODITY CODE—Continued

[Dollar amounts in U.S. dollars]

	SITC	1972	1973	1974	1975	1976	1977	Percent of total 1977
<b>U.S. general imports from the People's Republic of China:</b>								
Textile yarn, fabrics, made up articles.....	65	3,287,388	9,932,488	28,241,317	32,825,072	46,829,194	36,382,550	17.9
Crude animal and vegetable materials, n.e.s.....	29	7,777,969	7,735,040	9,796,954	7,560,702	24,396,708	30,758,024	15.2
Miscellaneous manufactured articles, n.e.s.....	89	4,899,687	8,871,396	12,788,751	14,716,508	25,300,825	25,678,462	12.7
Clothing.....	84	821,257	1,568,728	5,496,737	8,859,912	16,533,559	25,540,405	12.6
Coffee, tea, cocoa, spices and manufactures thereof.....	07	2,222,218	2,089,465	2,936,553	5,044,075	8,496,857	11,488,742	5.7
Explosives and pyrotechnic products.....	57	480,791	3,187,663	966,587	3,533,826	6,565,282	10,000,459	4.9
Fruit and vegetables.....	05	1,147,490	1,859,603	2,032,730	2,832,447	5,740,867	8,736,955	4.3
Textile fibers and their waste.....	26	4,075,769	6,164,532	4,640,619	4,374,665	8,193,005	7,539,658	3.7
Nonferrous metals.....	68	1,635,691	8,030,038	11,444,125	41,519,637	15,595,875	6,107,767	3.0
Essential oils and perfume materials; toiletries; cleansers.....	55	311,199	1,610,451	4,884,387	2,575,502	3,795,313	5,644,917	2.8
Nonmetallic mineral manufactures, n.e.s.....	66	1,378,515	1,776,887	1,770,681	3,454,538	3,971,088	4,660,769	2.3
Metallic ores and metal scrap.....	28	-----	213,541	1,125,183	2,624,013	3,377,109	4,660,335	2.3
Footwear.....	85	126,480	179,628	427,141	1,159,439	3,434,988	3,517,268	1.7
Fish and fish preparations.....	03	442,785	1,036,806	7,057,447	3,395,414	7,093,076	2,619,857	1.3
Chemical materials and products, n.e.s.....	59	1,101,757	2,728,695	9,407,325	4,527,406	1,728,855	2,581,314	1.3
<b>Total.....</b>		<b>29,708,996</b>	<b>56,973,761</b>	<b>103,014,537</b>	<b>139,504,156</b>	<b>181,052,601</b>	<b>185,848,482</b>	<b>91.7</b>
<b>U.S. general imports from the U.S.S.R.:</b>								
Petroleum and petroleum products.....	33	7,461,935	75,579,951	103,435,239	94,778,725	54,304,930	64,064,121	27.3
Nonferrous metals.....	68	46,596,184	93,831,108	186,910,282	81,047,512	62,115,053	60,209,246	25.7
Metallic ores and metal scrap.....	28	14,056,418	6,029,361	12,201,916	32,506,959	39,171,299	35,243,291	15.0
Nonmetallic mineral manufactures, n.e.s.....	66	15,627,103	20,597,067	13,610,516	14,351,268	18,155,130	25,617,149	10.9
Miscellaneous manufactured articles, n.e.s.....	89	2,816,113	3,597,286	3,344,486	4,804,818	16,123,090	10,019,502	4.3
Hides, skins and furskins, undressed.....	21	3,013,937	3,143,149	4,722,048	3,610,638	6,195,366	8,363,383	3.6
Chemical elements and compounds.....	93	799,303	1,367,459	1,144,807	1,166,313	1,881,747	5,600,506	2.4
Beverages.....	51	1,107,469	1,737,512	8,344,075	2,949,224	5,133,901	3,349,281	1.4
Crude fertilizers and crude minerals except fuels precious stones.....	11	176,982	519,958	514,639	819,453	1,280,229	3,305,510	1.4
Paper, paperboard and manufactures thereof.....	27	187,150	1,117,321	1,441,445	3,744,836	3,195,772	3,292,957	1.4
Machinery, other than electric.....	64	35,162	63,673	85,238	199,219	1,211,962	2,782,497	1.2
Wood and cork manufactures, except furniture.....	71	48,226	42,226	1,567,083	4,716,066	3,578,969	2,564,680	1.1
Chemical materials and products, n.e.s.....	63	671,723	1,327,089	1,382,744	1,228,037	2,278,750	2,406,300	1.0
Tobacco and tobacco manufactures.....	59	18,578	497,255	2,419,115	1,745,853	811,232	1,789,178	.8
	12	530	-----	1,294	105,385	418,463	1,622,645	.7
<b>Total.....</b>		<b>92,616,813</b>	<b>204,441,415</b>	<b>341,124,927</b>	<b>247,774,306</b>	<b>215,855,893</b>	<b>230,230,228</b>	<b>98.2</b>

Source: Joint Economic Committee, "Compendium," op. cit., pp. 213-214.

An increasingly popular Soviet effort is to engage in counter trade or concession deals. This means the return on capital investment made by Western nations or technical equipment is payment in the form of products produced in the future by the new firm. Soviet officials, according to one source, have estimated these types of deals will occupy approximately 40 percent of the U. S.-Soviet total trade between the years 1976-1980.<sup>15</sup> Recipients of this type of barter have no defense against delivery of shoddy quality products nor can the benefits derived from these future consumption items possibly match the strategic importance of capital and equipment received by the non-market economies.

The free emigration philosophy contained in the Trade Act of 1974 applies to any lending agency of the U. S. Government. The Export-Import Bank is currently limited on the amount of credit it can

15. American Committee on East-West Accord, Just For The Press, Vol. 1.

extend to any non-market economy with discriminatory emigration policies. The Bank, created originally with the specific intention of facilitating Soviet purchases of U.S. exports, extended direct credit to the USSR for exports whose total value reached \$1,042.1 million in 1978. Of this total value the Export-Import Bank financed \$469 million, with actual disbursement of \$433.9 million. Outstanding loans to the Soviet Union total \$432.7 million.<sup>16</sup> While this amount is negligible when viewed in contrast to overall U.S. credit extension, it is significant to point out that the interest rates charged on these credits to the Soviets is much lower than commercial rates available to the U.S. citizens. Until 1974, when the interest rates were changed, the Export-Import Bank provided direct credit at 6 percent interest and in 1978 the Bank elected to lower interest rates (or 7.75-8.75) from 8-9 percent. All of these changes have occurred while the commercial rate for U.S. borrowers has climbed steadily, fluctuating depending upon use between 8-11 percent.

While discussing the financial obligations the U.S. incurs with East-West trade, the most poignant example to date is the 1972 U.S.-Soviet grain deal. According to one authority, the American public suffered costs amounting to \$3.3 billion over a nine-month period for the 1972/73 Soviet grain purchases.<sup>17</sup> The experience questions the potential for any beneficial commercial agreements between the two nations.

The dim prospects for continued Soviet or Chinese economic growth without further outside financial backing raises the more serious question of how far one nation can extend credit before the role of lender and debtor are reversed. Although Richard Nixon and Henry Kissinger were strong proponents of the theory that commercial relations between the U.S. and USSR would create a "web of vested interests," Nixon warned Congress in 1973 that "the current trend toward detente with the Soviet Union and China may not prove durable." What would become of U.S. investments in these nations if detente seriously eroded? In fact, as some of the more tenuous arguments for lifting the MFN ban declare, it becomes harder and harder for large banks to refuse credit extension to the Soviets, and now the Chinese, when U.S. exports contracts are involved. Who is maintaining leverage over whom in this type of circumstance?

16. Joint Economic Committee, "Compendium," op. cit., p. 209.

17. Miles Costick, Economics of Detente and U.S.-Soviet Grain Trade (Washington, D.C.: The Heritage Foundation, 1976), p. 31. Also see Costick, The Strategic Dimension of East-West Trade (Washington, D.C.: ACWF Task Force on Strategic Trade, 1978) for a discussion of Soviet benefits gained through past and current East-West trade practices.

## CONCLUSION

Most-favored-nation trade status has necessarily acquired a political significance which complicates further the difficult task of accurately assessing the economic benefits the U. S. could expect to receive upon granting MFN to non-market economies. The current restrictions on granting MFN are embodied in the Jackson-Vanik Amendment to the Trade Act of 1974, linking emigration policies with U. S. trade concessions. Trade matters already promise to occupy much of the time of the Congress this spring with the upcoming review of the Multilateral Trade Negotiation package, discussion of the Export Administration Act of 1969 which expires in September, and a general debate on East-West trade will transpire from the Senate SALT debate as the entire framework of detente comes under review.

There does not appear to be any consensus on behalf of the Administration and various agencies connected with East-West trade, nor businessmen in the field, nor academicians, that the U.S. can expect to benefit economically from extension of MFN to the USSR or PRC. Furthermore, no evidence available to date substantiates claims that the Soviets or the Chinese have free emigration policies or have eased prosecuting human rights violations. If one attempts to piece together the scant information on these two economies and views this in connection with recent foreign policy actions (particularly the continued Soviet aid to Afghanistan and the Chinese invasion of Vietnam), it is difficult to advocate that the U.S. should, in effect, reward these actions by granting MFN. It now appears that the Carter Administration is leaning toward support of MFN concessions. Worried parties cite this move as the next progression in the inconsistent application of the Administration's human rights policy, following the recent reversal on U.S. sales of computers to Tass (originally blocked in 1978 as a protest against the trials of dissidents Anatoly Shcharansky and Alexander Ginzburg).

Linkage of emigration policies with U.S. trade concessions has not had any major ill-effects on the U.S. economy since 1975. And, as an interesting article recently contended, "There is nothing wrong with buying people's freedom which is what the Jackson amendment amounts to. On the contrary, it is an objective worthy of a democratic society."<sup>18</sup> Should the issue of MFN extension come before the Congress, in the form of a possible revision of the existing legislation or as vote on a presidential waiver of the Jackson-

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18. Carl Gershman, "Selling Them The Rope, Business and the Soviets," Commentary April 1979, p. 45. An excellent discussion of the question of technology transfer, a difficult problem in East-West trade.

Vanik Amendment, it would perhaps be more appropriate to center the debate not around the issue of how much leverage the U.S. can obtain through dangling the MFN concession, but rather what would the U.S. be giving up freely at this time, if MFN were extended to the PRC or USSR?

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