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UNITED STATES DEPARTMENT OF AGRICULTURE

EAST-WEST TRADE

Talk by Anthony M. Solomon
Assistant Secretary for Economic Affairs
U. S. Department of State
at the 43rd Annual Agricultural Outlook Conference
Washington, D. C., 2:30 P.M., Monday, November 15, 1965

It is a pleasure to be with you today and I would like to thank the Department of Agriculture for inviting me here to talk about East-West trade. The Departments of State and Agriculture work together regularly on a wide range of business and I am happy to say that cooperation at all levels is very good.

In discussing East-West trade we might first ask, what exactly is our policy? What are the criteria used by your Government to determine if a certain product can be shipped by an American exporter to a Communist country? Probably the best single word to describe it -- and I am fully aware of the danger of short definitions -- is flexibility. This is true both with regard to country -- because of the differences among the various Communist countries -- and with regard to the particular transaction.

We embargo all trade with North Viet Nam, Communist China, North Korea and Cuba. In the case of Cuba, however, an exception for foods and medicine for humanitarian reasons can be granted. The reasons for this policy of all-but-complete denial are obvious. Our commitment to support the people of South Viet Nam against the aggression of North Viet Nam makes trade by us with North Viet Nam in any goods -- even clothespins -- unthinkable. It was not long ago that North Korea moved in aggression against its neighbor to the South and the borders of the two Koreas are still policed in an uneasy truce. Communist China daily broadcasts its defiance of peace and boasts of a national policy of aggression. Cuba openly seeks to subvert the Latin American republics and has been declared by the OAS to be a persona non grata nation in the hemisphere.

Our total trade embargo for these countries is primarily a reflection of our non-existent political relations with them and symbolizes our continuing opposition to their aggressive policies and actions.

In contrast, with varying degrees of liberality or strictness, we do permit trade in non-strategic goods with the countries of Eastern Europe and the Soviet Union. Exports of those countries, as you know, are controlled by the Commerce Department, and exporters may ship goods after their license applications giving full details of the sale have been approved by the responsible Government agencies. It is the license application which determines in the first instance the non-strategic character of the proposed sale. These controls are part of American law in the Export Control Act of 1949 and they are parallel, although not

identical with, the international strategic controls worked out with our NATO partners and Japan in an international Coordinating Committee, called COCOM for short. This is to insure that the Communist countries do not obtain from the West goods of a strategic character that could increase their own military potential. All the Western countries, however, do carry on some trade in non-strategic goods with Communist countries. Western Europe's exports to them last year amounted to almost \$3 billion, and Japan's exports were almost \$400 million. So the goods we sell -- on a selected basis -- can be bought from other free world countries such as Japan, Canada and the Western European countries if they are not bought here.

The products that may be permitted in trade change from time to time. Procedures have been worked out both within the U.S. Government and within the COCOM organization to provide for the systematic examination of the strategic embargo lists. Within COCOM, there is a formal review procedure at frequent intervals -- every year or so. As new technology comes into the market and as other changes, with respect to availabilities and alternative sources of supply, take place, the list is revised. Items are added and items are deleted. The basic criterion for deletion is the non-strategic character of the item in question.

The system I have described, and which exists today in much the same selective form as when it was established, dates back to the critical period of East-West tensions which developed after the Second World War.

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From the earliest days of our Republic, we have regarded peaceful trade as a normal element in international relations and we have strayed from this principle only in response to a very definite national need. We did not, for example, treat trade with the Soviet Union differently in any important respect in the 1920s and 1930s -- even when we had no diplomatic relations with it -- than we treated trade with any other country. The sharp break with this tradition came at the end of World War II when the Soviets were fast consolidating their hold on Eastern Europe. The decision was taken to prevent goods, such as important industrial products and equipment which could contribute to their military or industrial strength, from reaching them. The controls placed on trade at that time were very effective because the United States had a virtual monopoly in the West on both the industrial products and raw materials that the otherwise self-sufficient Soviets were not able to produce themselves.

During the Korean War, these coordinated Western controls were strengthened and extended to cover virtually all industrial equipment and raw materials to all Communist countries.

After the Korean War, the importance of these special controls diminished somewhat. Western Europe began to re-build its industry and pressure

naturally accumulated to re-establish markets for civilian-use items behind the Iron Curtain, particularly in the Eastern European countries. Before coming under Soviet domination, those countries had had a very active trade with the countries of Western Europe and even Soviet domination in the early and middle 1950s was not able to eradicate these traditional ties completely. Because the Soviet Union exercised effective control over its European satellites and organized and exploited their economies in its own interest, our trade controls were initially applied equally to the Communist countries of Eastern Europe. But from the outset of our trade control program, we recognized the possibilities and the value of differentiating our controls and other aspects of our policy as a means of responding to and influencing significant political developments in the Communist world.

When Yugoslavia rebelled against the domination of Moscow in 1948 and Moscow broke off its trade in an effort to force Yugoslavia back into line, we supported Yugoslavia's assertion of independence with trade and substantial military and economic aid. Yugoslavia's successful breakaway was a significant event in world history and its influence was felt throughout the world.

About 65 percent of Yugoslav trade is now with the non-Communist world and the influence of that trade and the contacts that have flowed from it have had, in the opinion of your Government, an impact on the internal liberalization in Yugoslavia and can be expected to continue to have a salutary influence. Yugoslavia does not always or even often vote with us in the councils of nations but it is not an imperialist and aggressive power seeking to subvert countries of the free world.

The Yugoslav experience stimulated the latent forces of nationalism within the Eastern European countries. The Gomulka Government in Poland, for example, was able to reduce Soviet domination there and we encouraged the Polish trend toward greater independence through our Food-for-Peace program, our Export-Import Bank credits, and our trade policy. In connection with the conclusion of a claims settlement, we restored most-favored-nation treatment to imports from Poland and adopted a more liberal export licensing policy toward that country.

With the possible exception of Albania, the Eastern European countries are re-asserting in varying degrees their traditional national interests and extending their association with the non-Communist world. Sometimes dramatically, as in the case of Yugoslavia in 1948 and Poland in 1956, and sometimes gradually, as is happening now in Rumania, the Eastern European countries are each looking Westward for help in re-asserting their national identity. Rumania, for example, has recently rejected the confines of Soviet-designed economic plans for Eastern Europe and has sought trade and broadened relations with Western Europe and the United States.

The United States responded to this development by holding trade talks with Rumania in Washington last year. In these discussions, agreement was reached on improved conditions for trade between the two countries, including somewhat liberalized treatment of non-strategic exports to Rumania. Like our response to Yugoslavia, these negotiations illustrate U.S. trade policy with Communist countries -- differentiation and individual treatment.

At the close of 1965, the world looks very different to us from the days of the early 1950s when there was no real reason to distinguish among the Communist countries of Eastern Europe. They were then very much a monolithic bloc since for all practical purposes their leadership was exclusively Soviet-directed. This is no longer the case. While we must not exaggerate the modest degree of revived nationalism in these Eastern European countries, it is an important new trend and pertinent to our policy on trade with them. The specific policies that I have described, reflect our response to the beginnings of this trend. Now it is important to examine our policy and revise it if necessary so that it will continue to serve our interests in Eastern Europe.

President Johnson has recognized the longing of the peoples of Eastern Europe -- and some of their rulers -- for "deeper, steadier and more natural relations with the West." He said recently that "we wish to build bridges to Eastern Europe -- bridges of ideas, education, culture, trade, technical cooperation and mutual understanding for peace and prosperity."

These are peoples with distinct national histories and close traditional ties with Western Europe. They are small and economically vulnerable countries in the process of change. Should we reinforce the Iron Curtain by ignoring the significant changes taking place in Eastern Europe or should we tailor our trade and related policies in accordance with the conditions and behavior of each of these countries?

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So much for the present picture. What about the outlook, particularly with regard to trade in agricultural commodities such as wheat and other grains? We all remember the headlines in late 1963 that the U.S. had decided to sell wheat to the Soviet Union and Eastern Europe.

There should have been no surprise that the Government was willing to give permission to American grain dealers to sell wheat, in view of its non-strategic character and also since it was surplus and sales would reduce the disposal problem. Our sale of \$140 million worth of wheat to the Soviet Union demonstrates rather clearly, I think, the productive superiority of American agricultural organization and at the same time indicts the Soviet system for failures in the very sector of their economy they have tried so hard to build as a showcase.

But despite the wheat sale, the volume of trade between us and the Eastern European countries and the Soviets is still very modest. In 1964, out of total U.S. exports of about \$26 billion, we sold to them only \$340 million, including wheat, or about 1 percent of our total exports. This figure includes, however, some PL-480 sales. Our imports from them of \$102 million in 1964 were considerably less than 1 percent of our total imports.

Although our exports to these countries are very small in terms of our total exports, it is interesting to note the rather large amounts of agricultural commodities included in these figures. Taking the three-year period 1962-1964,

our commercial agricultural exports to Eastern Europe and the Soviet Union amounted to almost \$400 million. So we cannot dismiss this trade as negligible in terms of a favorable impact on a particular sector of the economy -- agriculture -- or on our balance of payments.

What do the shortages in the U.S.S.R. and Eastern Europe mean in terms of our own sales opportunities? I cannot say flatly as that is subject to a number of unknowns. What is clear is that Soviet and Chinese purchases since July of this year have again made world supplies tight outside of the United States, as happened two years ago when their purchases left the United States the virtual sole supplier in the latter part of the crop year.

Between them, the Communist Chinese and the Soviets have contracted for about 15 million tons of wheat for delivery by next July. Eastern European countries also have been in the market for purchases ranging upward of 2 million tons. From what we know of agricultural conditions in Eastern Europe and the Soviet Union, it appears highly possible that they will need still more wheat to supplement the massive purchases already made in Western markets.

So the possibility of Soviet or Eastern European overtures in our wheat market exists. As you know, we would welcome such sales for much the same reasons as we welcomed them two years ago. Some of the reasons why I have tried to outline here today.

I am sure that you are interested in the requirement that 50 percent of any American wheat sold to the Soviet Union and the Eastern European Communist countries as well as 50 percent of other grains sold to the Soviet Union must be carried in American ships if available. This is a controversial subject and, as President Johnson noted recently, there are "strong and divergent views as to its merits."

The existence of the requirement, as you know, did not prevent the East Germans from buying 45,000 tons of American wheat last month for their holiday baking.

We do not know whether the Soviet Union is prepared to buy wheat or other grains from us. But we do know that they are not prepared to pay the extra costs required for moving half of their purchases on ships charging rates above the world level so long as wheat is available from other countries. It is possible that if the 50 percent American shipping provision were removed, not a ton of grain would move to Eastern Europe. But it is also possible that if the shipping requirement were rescinded, the Soviets would be in the American market for considerable quantities of wheat and other grains.

This cargo preference regulation is under constant review within the Administration. It also has been under study by the Senate Foreign Relations Committee.

In responding to a letter from this committee last month, President Johnson said that he was aware of the great interest among those in the agricultural industry in selling wheat to the Soviet Union. Because of that interest and the concern of the Committee, the President states, "the Administration will continue to maintain an active consideration of the regulation, the advisability of continuing it in effect, and the likelihood of effectuating potential sales if it were rescinded."

You can be assured, therefore, that this matter is receiving the most careful attention within the Government and that all factors are being weighed.

The outlook for East-West trade is affected by many things. It is affected by what we are able to offer to sell to the Eastern Europeans and the Soviets, and under what terms. It is affected by what they are able to export to us. It is affected by the mechanics of tariffs, the physical distances between the two markets and the institutional framework of their state trading organizations as opposed to our private enterprise, and many other factors or decisions.

But it is also affected by the intangibles of consumer decisions here in the United States. In our market system, what is ultimately bought by consumers is the sum total of individual decisions. We are under no obligation or duress to buy or not to buy brand X or Y or Z.

Also, the decision on the part of a businessman to trade or not to trade with Eastern Europe or the Soviet Union is entirely one for him to make. Your Government does not, however, recognize the propriety of organized pressure groups interfering with Government decisions on East-West trade that have been carefully worked out with full regard for the national interest and security. Recently, most of the major tobacco companies were threatened by a boycott because of their use in cigarettes of oriental-type tobacco imported from Yugoslavia. The tobacco companies courageously refused to be intimidated by a group that called itself "The Committee to Warn of the Arrival of Communist Merchandise on the Local Business Scene," and the Secretaries of State, Defense and Commerce wrote a public letter to the companies commending their refusal to submit to the threatened boycott.

The letter from the Cabinet officers said, in part "... your Government regards commerce in peaceful goods with the countries of Eastern Europe, including the Soviet Union, as completely compatible with our national interest. No American business enterprise should be penalized for purchasing or selling such goods. In fact, any individuals or groups that seek to intimidate, boycott, blacklist, use or threaten economic reprisals against such American enterprises for carrying on lawful trade with Eastern European countries act harmfully and irresponsibly. To yield to such groups is to encourage capricious interference with the vital processes of our Constitutional Government -- interference that could at the end of the road make it impossible for our country to conduct a coherent foreign policy."

This statement has laid to rest a threat that, had it not been dealt with decisively, might have led to action that could have interfered seriously with the other, positive efforts being made in the East-West trade field.

Boycott pressures such as this one don't happen every day. But other pressures that have a net effect on the Federal Government's Constitutional role in these matters arise frequently. For example, many local labelling ordinances encumbering the trade of Communist countries are passed over the authority and competence of the Federal Government in this sphere. Many of these are declared unconstitutional in local or state-level courts, but others have gone unchallenged or unnoticed and hence remained on the books.

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It bears repeating that our trade policy toward Communist countries is but a small part of our overall policy toward them. A main purpose of this policy is to demonstrate that both sides benefit from peaceful exchange.

Trade relations and trade negotiations are a highly effective means of communicating this point. Through them, we hope to "build bridges," so that over time we can influence these countries along paths favorable to our purposes and to peace. We have no illusions that this will come about soon or even that trade will be the decisive factor. But we are sure that it is a factor and should be used to the fullest.

Recently a special Presidential committee headed by J. Irwin Miller, President of the Cummins Engine Company, made an hard-headed evaluation of the way in which United States national interests may be advanced by a more creative use of American trade relations with the Communist countries of Europe. The Miller Committee report put its conclusion this way: "Trade is one of the few channels available to us for constructive contacts with nations with whom we find frequent hostility. In the long run, selected trade, intelligently negotiated and wisely administered, may turn out to ---(be) one of our most powerful tools of national policy."

In order to use trade effectively as an instrument of policy, the President will need the authority to enter into discussions with these countries on a case-by-case basis and look at such things as copyright, patents, protection of American property and non-discriminatory most-favored-nation tariff treatment for the countries that do not have this at present. It should be made clear however -- in keeping with our overall policy design of flexibility -- that such MFN tariff treatment could be granted or withdrawn, depending on whether our interests were best served by encouraging or denying trade.

An expansion of our peaceful trade with the Eastern European countries and the Soviet Union could, over a period of time, bring us some commercial and economic benefits. But a more important effect, we believe, would be the chance to break down further the barriers of ignorance, distrust and fear that separate their peoples from ours. We would also hope this would apply to

official relations. Thus the channels of peaceful trade would be used more fully to reduce international tensions and strengthen the outlook for peace. For these reasons we believe that United States policy on East-West trade deserves the most careful consideration by the public, the Congress and the Executive branch of your Government to insure that it is attuned to the times and serves our national interest as effectively as possible.