UNITED STATES
INTERNATIONAL
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# SUMMARY OF THE SOVIET ECONOMY, ECONOMIC REFORMS, AND U.S.-SOVIET ECONOMIC RELATIONS

**Volume 3**

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**Office of Economics**
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Acknowledgement: The Office of Economics appreciates the assistance of Charles Yost of the Commission's Office of Industries for his comments provided in the preparation of this study.



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**Staff Research Study #16**

# SUMMARY OF THE SOVIET ECONOMY, ECONOMIC REFORMS, AND U.S.-SOVIET ECONOMIC RELATIONS

**Volume 3**

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# Introduction to Study

## INTRODUCTION

### *Description of the Report*

This staff study was prepared as a summary reference guide on the Soviet economy. The material in this volume is intended to provide a brief, general overview of the Soviet economy, offering a basic explanation of factors and developments that have shaped the current Soviet economic situation. As such, this report includes background information on:

- the development of the Soviet economy in a historical context;
- Soviet economic and trade performance trends in the 1980s;
- relevant U.S. and Soviet laws relating to mutual economic relations;
- an overview of Soviet economic reforms; and
- the potential impact of Soviet economic reforms on U.S.-Soviet economic relations.

Information presented in this volume has been compiled from a variety of government and private sector sources. As an overview, this study does not attempt to provide an exhaustive discussion of the subject material. For more comprehensive explanations and analyses of topics addressed in this volume, refer to the sources cited.

### *Disclaimer*

This study was prepared by Fred H. Rogoff and Lisa A. Zanetti of the Commission's Office of Investigations (Chapter 1), and Peter Pogany and Joseph Pelzman of the Commission's Office of Economics (Chapters 2 and 3, respectively). The comments and conclusions set forth herein have not been adopted by the Commission and do not necessarily represent the views of the Commission or any of the Commissioners. [1] It is being published by the Commission in order to make available to the Congress, the Executive Branch, and the public, information relating to the economic history and performance of the Soviet Union that is public but has not been compiled and published in such a format elsewhere.

[1] Commissioner Eckes notes the Commission did not formally approve either the substance of the Staff Research Study or the allocation of Commission resources for its preparation and publication. This is a departure from the past practice of the agency.

# Fact Sheet

## *The Soviet Union and the United States: A comparison of statistics*

**FACT SHEET**
*The Soviet Union and the United States: A comparison of statistics*

| | Soviet Union | United States | Index (U.S.=1.0) |
|---|---|---|---|
| **Land** | | | |
| Total area | 22,402,200 $km^2$ ranks 1st in size among all states | 9,372,610 $km^2$ ranks 4th in size among all states | 2.4 |
| Land use: | | | |
| - Arable | 2,240,220 $km^2$ | 1,874,522 $km^2$ | 1.2 |
| - Pasture | 3,808,374 $km^2$ | 2,436,878 $km^2$ | 1.6 |
| - Forest | 9,184,902 $km^2$ | 2,718,057 $km^2$ | 3.4 |
| Coastline | 42,777 km | 19,924 km | 2.2 |
| Land boundaries | 19,933 km | 12,248 km | 1.6 |
| Shared borders | 12 countries | 2 countries | 6.0 |
| **People** (1989) | | | |
| Population (7/89) | 288,742,345 | 248,231,030 | 1.2 |
| Life expectancy (1988) | 69 years | 75 years | 0.9 |
| Infant mortality | 25 deaths/ 1,000 live births | 10 deaths/ 1,000 live births | 2.5 |
| Total fertility rate | 2.4 children/ woman | 1.9 children/ woman | 1.3 |
| Net migration rate | 0 migrants/ 1,000 people | 2 migrants/ 1,000 people | -- |
| Labor force (1988) | 151,000,000 | 122,000,000 | 1.2 |
| Organized labor (1986) | 98 percent of workers | 17.5 percent of workers | 5.6 |

**FACT SHEET**
*The Soviet Union and the United States: A comparison of statistics*

| | Soviet Union | United States | Index (U.S.=1.0) |
|---|---|---|---|
| **Infrastructure** (1987) | | | |
| Railroads | 146,000 km | 270,312 km | 0.5 |
| Highways | 1,609,900 km | 6,365,590 km | 0.3 |
| Inland waterways (navigable) | 122,500 km | 41,009 km | 3.0 |
| Civilian aircraft | 4,500 | 3,297 | 1.4 |
| Pipelines | 81,500 km (oil)<br>195,000 km (gas) | 275,800 km (oil)<br>305,300 km (gas) | 0.3<br>0.6 |
| **Industry** (1988) | | | |
| Primary energy production | 33.4 million b/d oil equivalent | 32.9 million b/d oil equivalent | 1.0 |
| Electricity: | | | |
| - Capacity | 348,000,000 kW | 768,349,000 kW | 0.5 |
| - Production | 1,730 billion kWh | 2,900 billion kWh | 0.6 |
| - Per capita consumption | 6,040 kWh | 11,790 kWh | 0.5 |
| Crude steel production | 163.0 million metric tons | 90.6 million metric tons | 1.8 |
| **Economy** (1988) | | | |
| GNP: | | | |
| - Total | $2,535 billion | $4,864 billion | 0.5 |
| - Per capita | $8,850 | $19,770 | 0.5 |
| - 1988 growth | 1.5 percent | 4.1 percent | 0.4 |
| Inflation | 5.0 percent | 4.1 percent | 1.2 |
| Budget: | | | |
| - Revenues | $575 billion | $976 billion | 0.6 |
| - Expenditures | $710 billion | $1,137 billion | 0.6 |
| - Deficit | $135 billion | $161 billion | 0.8 |

**FACT SHEET**
*The Soviet Union and the United States: A comparison of statistics*

| | Soviet Union | United States | Index (U.S.=1.0) |
|---|---|---|---|
| **Trade** (1988) | | | |
| Exports (f.o.b.) | $110.7 billion | $321.6 billion | 0.3 |
| Imports (c.i.f.) | $107.3 billion | $459.6 billion | 0.2 |
| Trade balance | $3.4 billion | -$138.0 billion | -- |
| External debt (1987) | $26.4 billion | $400 billion | 0.1 |
| **Living standard indicators** | | | |
| TV sets (1982) | 85 million | 150 million | 0.6 |
| Radio receivers (1982) | 162 million | 495 million | 0.3 |
| Telephones in use (1982) | 84/1,000 persons | 791/1,000 persons | 0.1 |
| Automobile registrations (1986) | 42 autos/ 1,000 persons | 572 autos/ 1,000 persons | 0.1 |
| Meat production (1988) | 70 kilograms/ person | 111 kilograms/ person | 0.6 |
| Newsprint production (1987) | 5.9 kilograms/ person | 21.4 kilograms/ person | 0.3 |
| Annual cinema attendance (1981) | 15.9/per capita | 4.6/per capita | 3.5 |

*Source: Compiled from statistics of the Central Intelligence Agency: The World Factbook 1989, and Handbook of Economic Statistics, 1989.*

# Chapter 1

## *The Nature of the Soviet Economy*

## HISTORICAL BACKGROUND ON SOVIET ECONOMIC DEVELOPMENT

This chapter presents a brief, general overview of the Soviet economy. It is intended to provide a basic understanding of factors and developments that have shaped the current Soviet economic situation, and to provide information on recent Soviet economic performance in a comparative context. [1]

The first section of this chapter provides background information on the historical development of the Soviet economy. The second section provides an overview of Soviet economic and trade performance during the 1980s. The third section provides background on relevant U.S. and Soviet laws relating to mutual economic relations.

### Geographic basics of the Soviet Union

The size of the Soviet Union is difficult for most people to comprehend, even for those individuals living in countries of continental proportions like the United States. In order to give a sense of the proportions of the U.S.S.R., the following information is provided:

- The Soviet Union is more than twice the size of any other country.
- The area of the Soviet Union exceeds that of South America.
- The United States would fit into Siberia with room to add half of Canada.
- Parts of Siberia are actually closer to Washington, D.C. than to Moscow.
- The western city of Leningrad is closer to New York than to the Far Eastern city of Vladivostok.
- From west to east, the U.S.S.R. extends nearly 10,000 km (in the United States, Miami is 5,000 km from Seattle, and New York is 4,000 km from San Francisco).
- When night is falling on the western border, a new day is breaking in the east.

**Figure 1-1** provides a comparison of the size and the latitudinal extent of the Soviet Union and the United States. The Soviet Union lies much farther north than the United States, and has a higher degree of continentality. [2] The terrain of the country is characterized by broad plain with low hills west of the Urals; vast coniferous forest and tundra in Siberia; deserts in Central Asia; and mountains to the south. [3] These factors, in conjunction with the arrangement of mountains, bodies of

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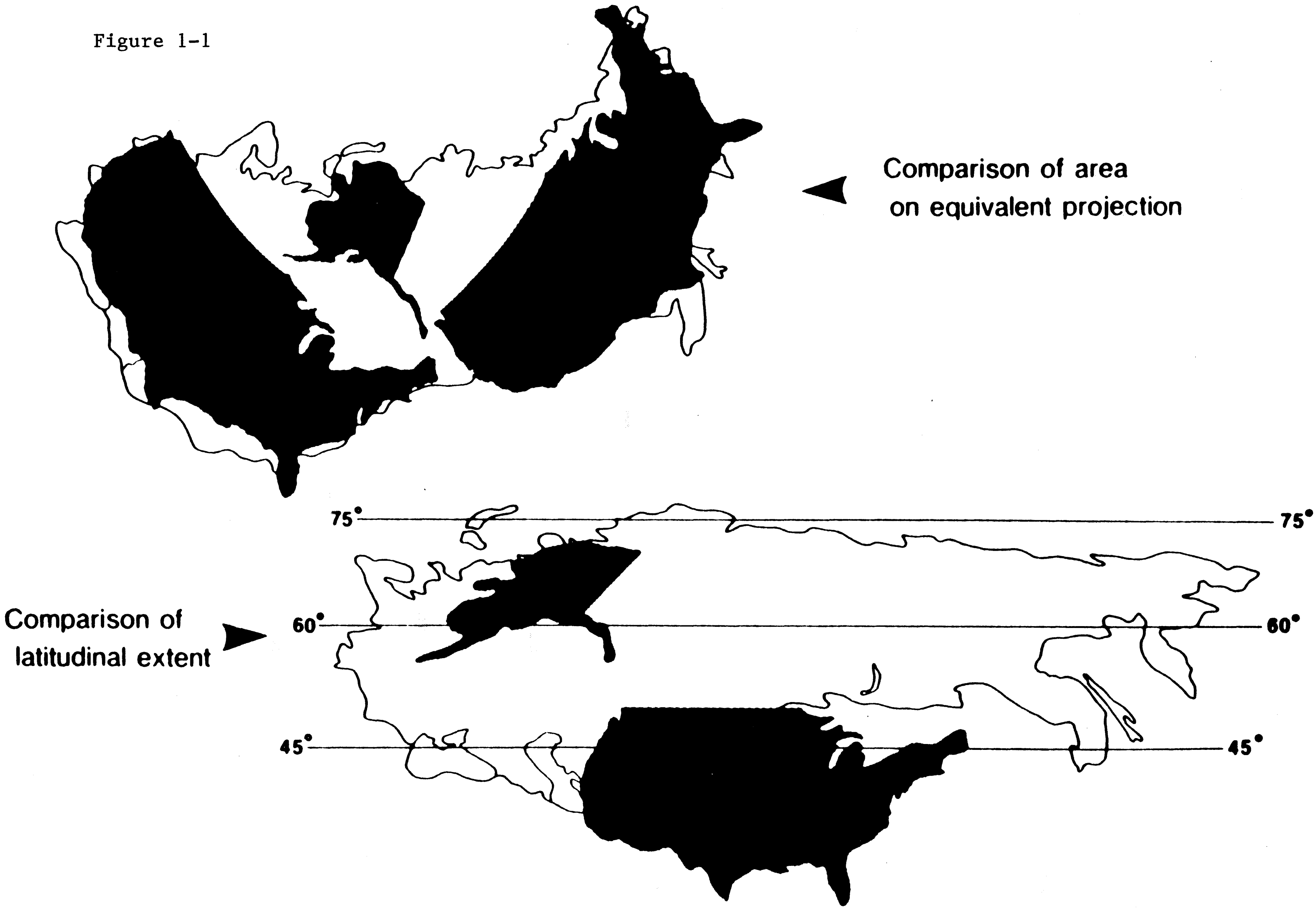
[1] The terms "Soviet Union" and "U.S.S.R." are used interchangeably in this study.

[2] High continentality refers to the fact that most of the U.S.S.R. is shielded from maritime influences which normally help contribute to the moderation of temperatures, precipitation, and overall climate.

[3] The World Factbook 1989, Central Intelligence Agency, p. 273.

Figure 1-1




1-2 Source: Paul E. Lydolph, Geography of the U.S.S.R.: Topical Analysis (Elkhart Lake, WI: Misty Valley Publishing, 1979), p. 4.
Reprinted with permission.

water, and latitudinal extent, act as serious constraints on access to the high seas and year-round ice-free ports, agricultural production and productivity, and land that is not subject to permanently frozen subsoil (permafrost). **Figure 1-2** shows the spatial locations of adverse physical conditions and natural zones of the U.S.S.R.. **Figure 1-3** presents a relational comparison of climatic conditions in the U.S.S.R. and North America.

The U.S.S.R. is both blessed and burdened by its great size. Size has endowed the Soviet Union with a rich natural resource base; given it the ability to trade space for time during war; and enhanced its political power through territorial control. However, size has also contributed to developmental problems by posing obstacles in the form of distance, terrain, and climate. The Soviet Union must expend unparalleled energy in organizing and managing its economy and overcoming the great distances between centers of manufacturing and sources of raw materials, between cities and farms, and between producers and consumers. [4] **Figure 1-4** provides an illustration of these obstacles by indicating the relative construction costs of developing various areas of Siberia compared to construction in Moscow. **Figure 1-5** gives an example of the distances that materials and components for the manufacture of automobiles must travel for assembly in the centrally located city of Gorky. For industrial centers not so centrally located, distances are even greater.

## Natural resources and endowments

*General characteristics.--* The Soviet Union is rich in numerous natural resources. It possesses an estimated 30 percent of known world reserves of iron ore and manganese. The country is self-sufficient in fuels, including crude petroleum, natural gas, and coal; timber; gold; manganese; lead; zinc; nickel; mercury; potash; phosphates; and most strategic minerals. [5] **Figure 1-6** shows the natural resource potential of the U.S.S.R.

*Agriculture.--* The U.S.S.R. is 2.4 times the size of the United States. However, it has roughly only the same amount of arable land. Given the comparable arable land area, the Soviet Union's agricultural sector has historically performed much poorly than the United States. [6] This is partly due to inefficient management and production, but is also the result of geography. Most of the U.S.S.R. lies above the 48th parallel (roughly the border between the United States and Canada). Because of the inherent characteristics of high latitude such as fewer light-days, colder temperatures, and less moisture, the growing of certain crops is precluded. In addition, some of the most fertile land is water-deficient or has an insufficient growing season. Many of the better climates have poor soils, and a hot,

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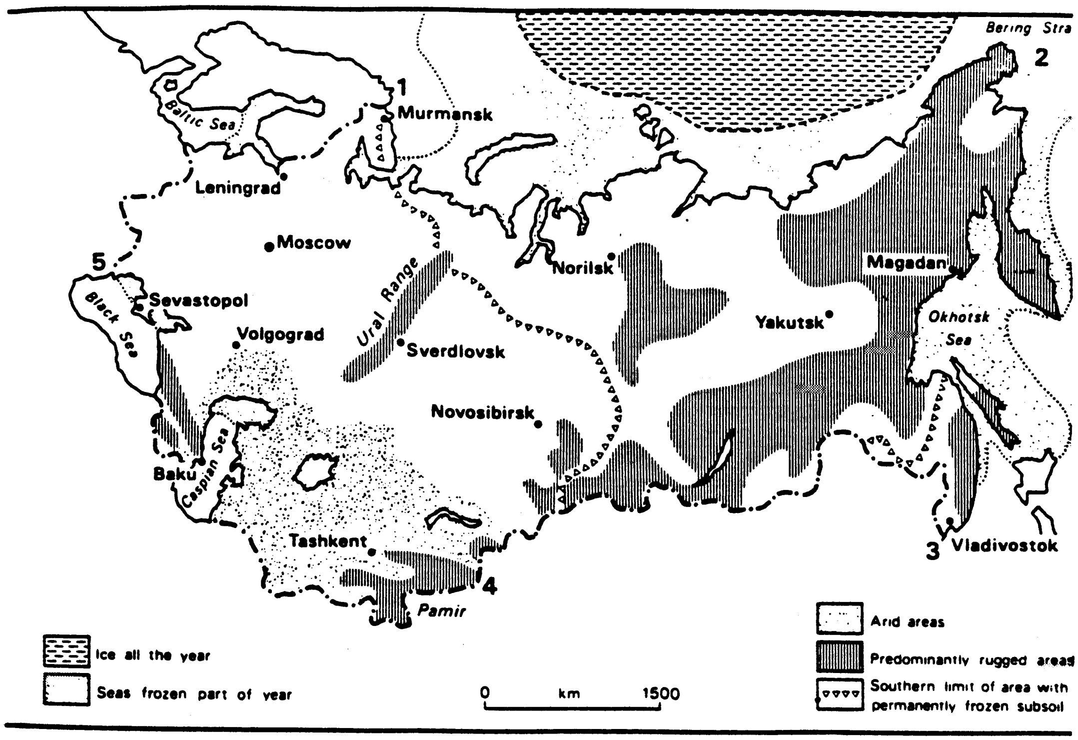
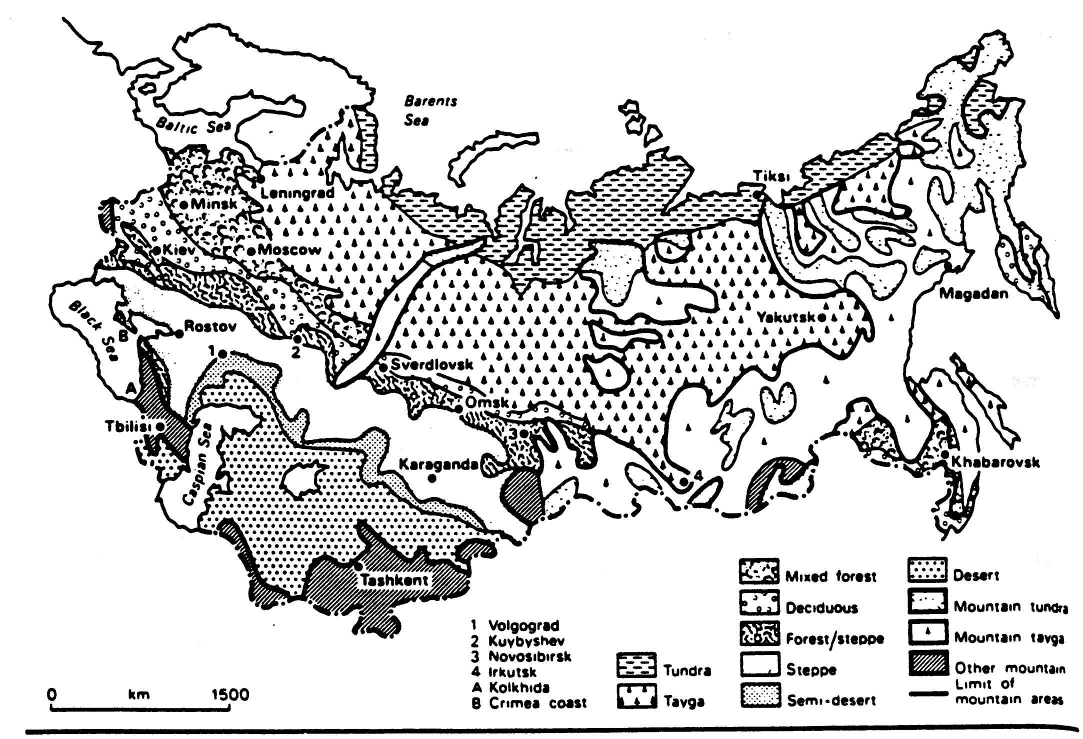
[4] For a detailed analysis of the economic geography of the U.S.S.R., see Paul E. Lydolph, Geography of the U.S.S.R. (Elkhart Lake, WI: Misty Valley Publishing, 1979).

[5] Exceptions are bauxite, alumina, tantalum, tin, tungsten, fluorspar, and molybdenum. The World Factbook 1989, Central Intelligence Agency, p. 273.

[6] See discussions under "Economic Development History" and "Trends in Economic Output and Performance."

**Figure 1-2**
**Adverse physical conditions in the U.S.S.R.**




**1-4**

Natural zones of the USSR
Source: Based on *Geograficheskiy atlas SSSR dlya 7–8 klassov*. Moscow 1966, pp. 6–7

Source: J.P. Cole, Geography of the Soviet Union, pp. 3 and 68. Reprinted with permission.

Figure 1-3
A comparison between climatic conditions in the U.S.S.R. and North America


A comparison between climatic conditions in the USSR and North America. Siberia matches up fairly closely to Canada while European USSR and Central Asia are analogous on the whole to the western half of the USA rather than the eastern half.
Source: *CIA Atlas* (1974)

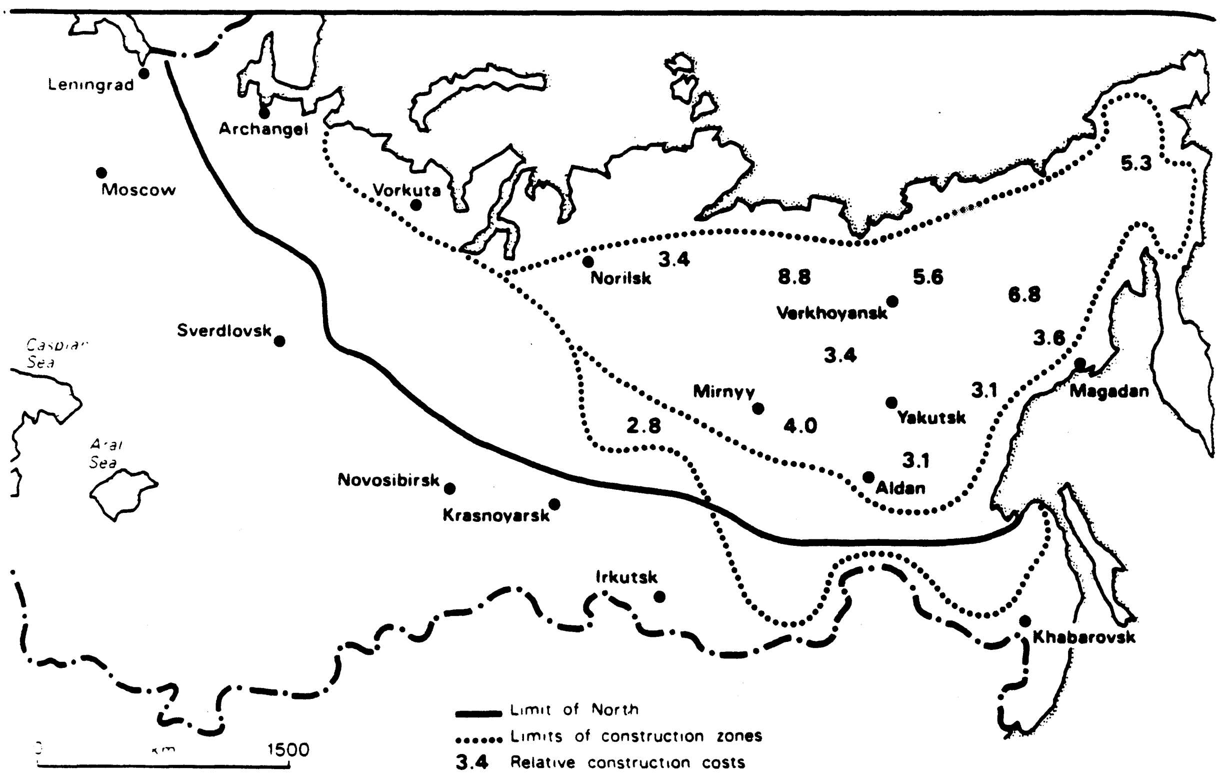
1-5

Source: J.P. Cole, Geography of the Soviet Union, p. 98. Reprinted with permission.

**Figure 1-4**
**Construction costs in the northern U.S.S.R.**

(Index: Moscow = 1.0)

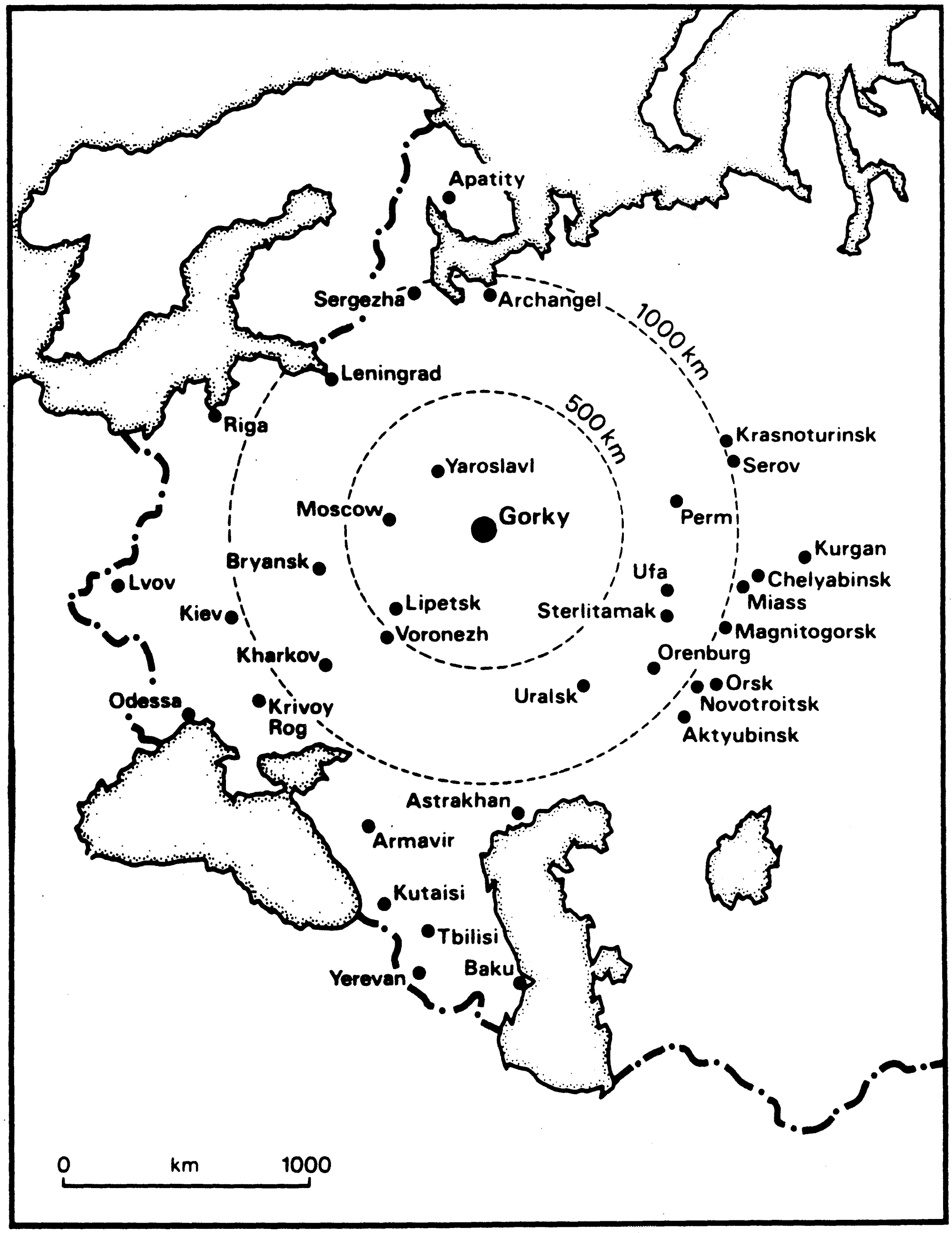
Construction costs in the north of the USSR according to Dogayev (1975), p. 32. The values on the map are the number of times greater costs are in various regions of the north than in the Moscow area (= 1.0). Three construction zones are also distinguished on the map




Source: J.P. Cole, Geography of the Soviet Union, p. 74.
Reprinted with permission.

**Figure 1-5**
**Distances from the industrial center of Gorky**

Places of origin of materials and components used in the manufacture and assembly of motor vehicles in the town of Gorky
Source: Stroyev (1971) p. 52






Source: J.P. Cole, Geography of the Soviet Union, p. 213.
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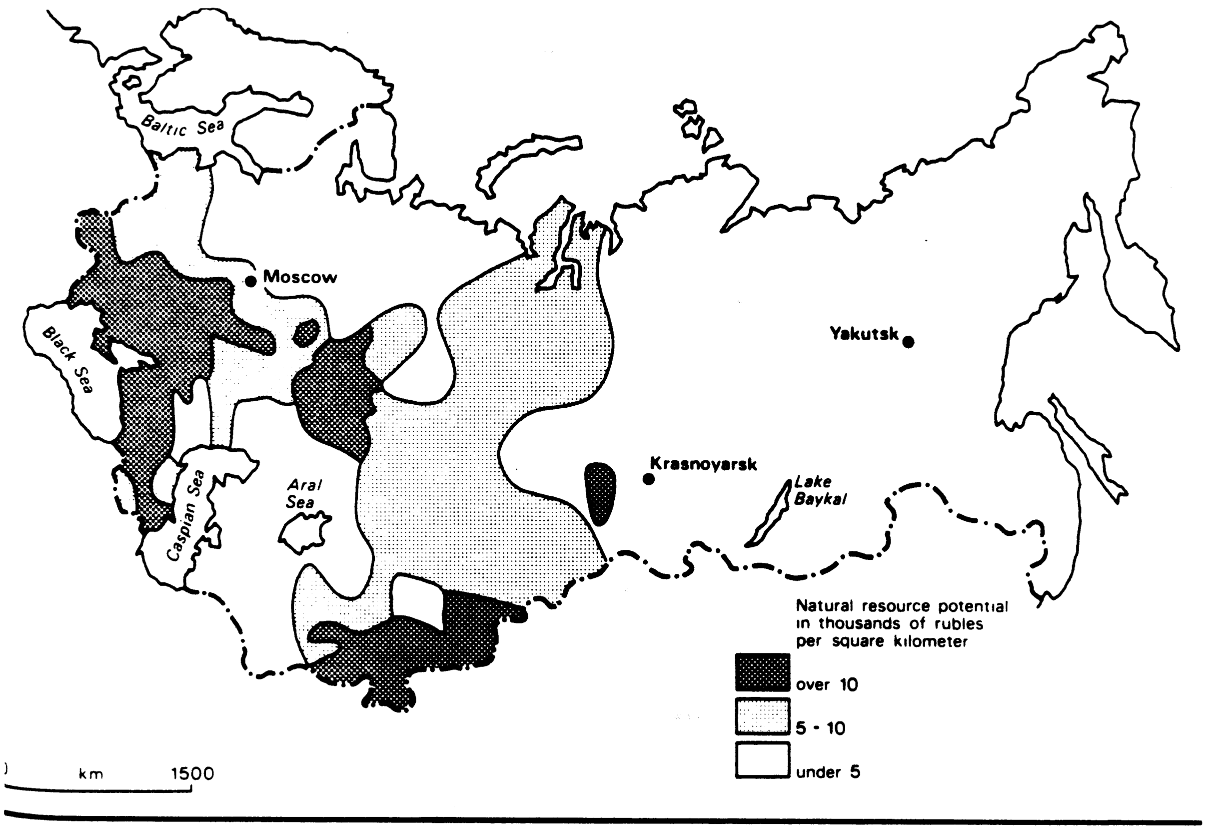
**Figure 1-6**
**The natural resource potential of the U.S.S.R.**




The relationship of natural resources to area according to Mints and Kakhanovskaya (1974). There is a much higher density of natural resources per unit of area in the western part of the USSR than in the eastern part. Two main reasons may be proposed. First, the quality of the land resources is much higher in the southwestern part of European USSR and in the irrigated parts of Central Asia than anywhere else in the country. Second, although many mineral deposits have already been discovered or are thought to exist in the eastern part of the USSR, they are not considered to be readily available in the foreseeable future. They are therefore not taken into account

Source: J.P. Cole, Geography of the Soviet Union, p. 107. Reprinted with permission.



**1-8**

desiccating wind affects the south. [7] **Figure 1-7** shows arable land as a percentage of total land area. **Figure 1-8** shows the main agricultural belt of the U.S.S.R. [8]

The primary unit of agriculture in the U.S.S.R. is the collective farm *(kolkhoz).* Collective farms occupy state-owned land which the shareholders (workers) lease permanently by title deed. All the capital of the farm belongs to the *kolhoz*; membership is hereditary and governance is by committee. Compulsory deliveries to the state are paid for at prices fixed by the state, with prices for some commodities varied from time to time and by region to compensate for differing costs of production resulting from geographical factors. The surplus produced above state procurements can be sold at market prices, which are usually higher than state procurement prices (though still controlled). The income of the farm workers depends on total proceeds, less operating expenses and taxes. While individual remuneration is often in-kind (e.g., seed and fertilizer), cash payments have grown in importance and the *kolhoz* is expected to fix guaranteed minimum earnings. [9]

In addition to the collective farm lands, each collective farm family is allowed to own livestock and a small private plot, between 0.15 and 0.50 hectares (ha) [10], with the size of the plot varying by region. Though less than four percent of total arable acreage, the private plots account for a significant proportion of the fresh produce and red meat or poultry available to the urban population. They are also the mainstay of the farm workers' own food supply. In 1978-81 a series of measures were taken to encourage private plot production. [11]

State farms *(sovhozy)*, though similar to collective farms, are distinguishable from collectives in that they have less formal independence. Workers on a *sovhoz* are paid mainly in cash, according to a scale of work and qualifications of the workers. *Sovhozy* are financed by the government. While the most common form of *sovhoz* produces for the market, there are state farms that are essentially research and experimental establishments. Produce procurement prices for the *sovhoz* are generally lower than for *kolhoz* production. While state farms are generally larger and better equipped than collective farms, the distinctions in terms of worker remuneration and types of crops grown have diminished in recent years. [12]

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[7] The World Factbook 1989, Central Intelligence Agency, p. 273.

[8] The chernozem or "black soil" region stretches from the western Ukraine to Novosibirsk in central Asia and is the most fertile growing region in the Soviet Union.

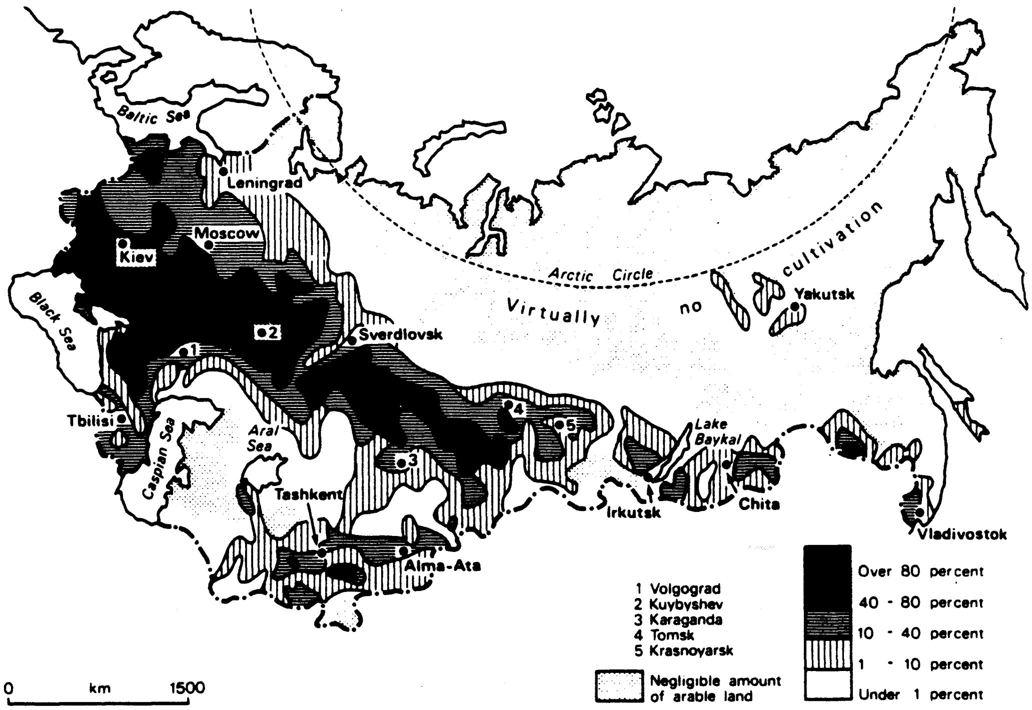
[9] Leslie Symms, Russian Agriculture (London: G. Bell & Sons, Ltd., 1972), pp. 8-9.

[10] One hectare equals 2.47 acres.

[11] Symms, Russian Agriculture, pp. 8-9.

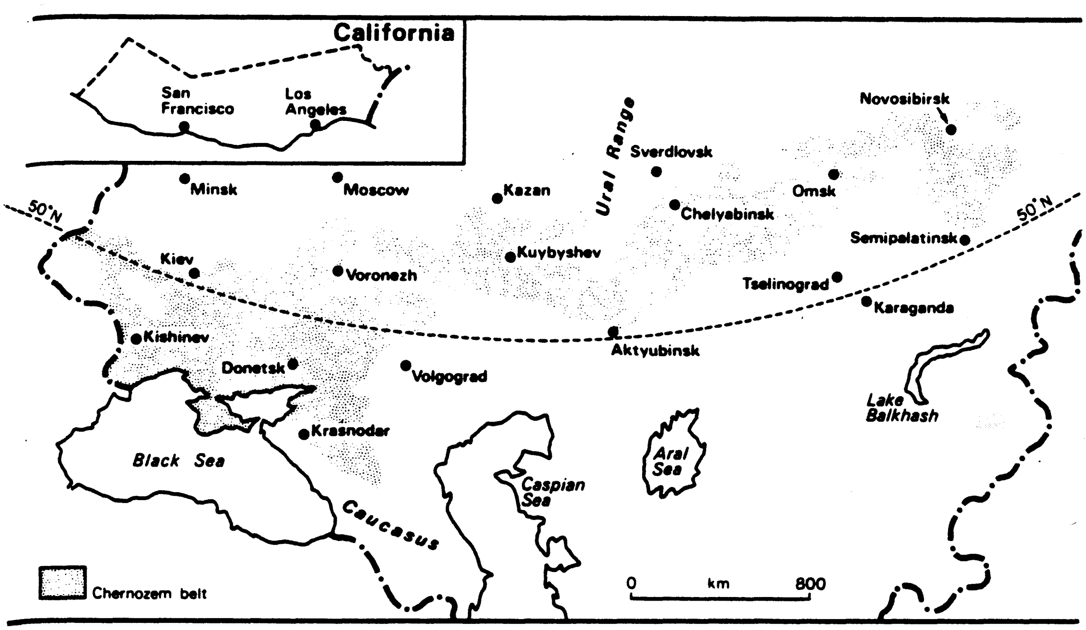
[12] Ibid.

**Figure 1-7**
**Arable land as a percentage of total land area**




Arable land as a percentage of total land area

**Figure 1-8**
**The chernozem (black soil) belt in the U.S.S.R.**




The main belt of the chernozem soils. California is shown on the same scale

Source: J.P. Cole, Geography of the Soviet Union, pp. 92 & 99 1-10
Reprinted with permission.

Under experimental, decentralized "collective contract" arrangements introduced in the early 1980s, collective farmers working in small groups or "links" receive a fixed price for as much as they can deliver, and set their own wage and bonus scales. Further reforms announced in early 1986 attempted to shift the emphasis away from procurement targets toward a more flexible price system, and allow up to one-third of fruit and vegetable output to be marketed directly by collectives. [13] In 1988, full cost-accounting and self-financing were introduced. [14]

In 1989, agriculture posted a slight 1.9 percent increase in production when compared with 1988. Productivity increases made a better showing: in the public sector of agriculture, productivity increased by 5 percent, while the number of people employed in the sector declined by 0.7 million. Over the past 4 years of the current 5-year plan (1985-90), the average annual volume of gross agricultural output has increased by 9.8 percent over the corresponding period in the previous 5-year plan. The plan's projected growth rate is 12.9 percent. [15]

*Forestry.*-- About 42 percent of the land area of the Soviet Union is forest. The Soviet Union is a major timber producer and exporter, but production has shown no sustained upward trend since 1980. [16] In 1989, the Soviet economy was "undersupplied" by approximately 15 million cubic meters of commercial timber and over 3 million cubic meters of lumber. [17]

*Mining.*-- The Soviet Union is a major producer of a number of minerals. Most production is for internal consumption, but gold and diamonds, and to a lesser degree iron ore, chromium, nickel, asbestos, and nitrogen fertilizers are foreign exchange earners. [18] Uranium is produced in substantial quantities. [19] **Figure 1-9** shows the location of deposits of selected non-fuel minerals.

*Energy.*-- The Soviet Union has huge proven and probable reserves of all the major primary fuels--oil, coal, and natural gas--and has long been a substantial net exporter of energy. In most recent years, about half of Soviet oil exports have gone to Eastern Europe. The ability of the Soviet Union

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[13] EIU Country Profile 1989-90, p. 21.

[14] For additional information on reforms and performance in the Soviet agricultural sector, see U.S.S.R. Agriculture and Trade Report, U.S. Department of Agriculture Economic Research Service, May 1989.

[15] Foreign Broadcast and Information Service, Daily Report: Soviet Union (FBIS), January 29, 1990, p. 113.

[16] The U.S.S.R. accounted for 34 percent of world exports of wood and wood products in 1988.

[17] FBIS, Jan. 29, 1990, p. 113.

[18] The World Factbook 1989, Central Intelligence Agency, p. 273.

[19] No production data on uranium are available, but U.S. Department of Commerce statistics indicate that in 1989, the United States imported some $21.7 million in enriched uranium or related products (HTS subheading 2844.20: uranium enriched in U235 and plutonium and their compounds; alloys, dispersions, ceramic products and mixtures containing these products). This represented a 92 percent increase over imports in this category in 1988.

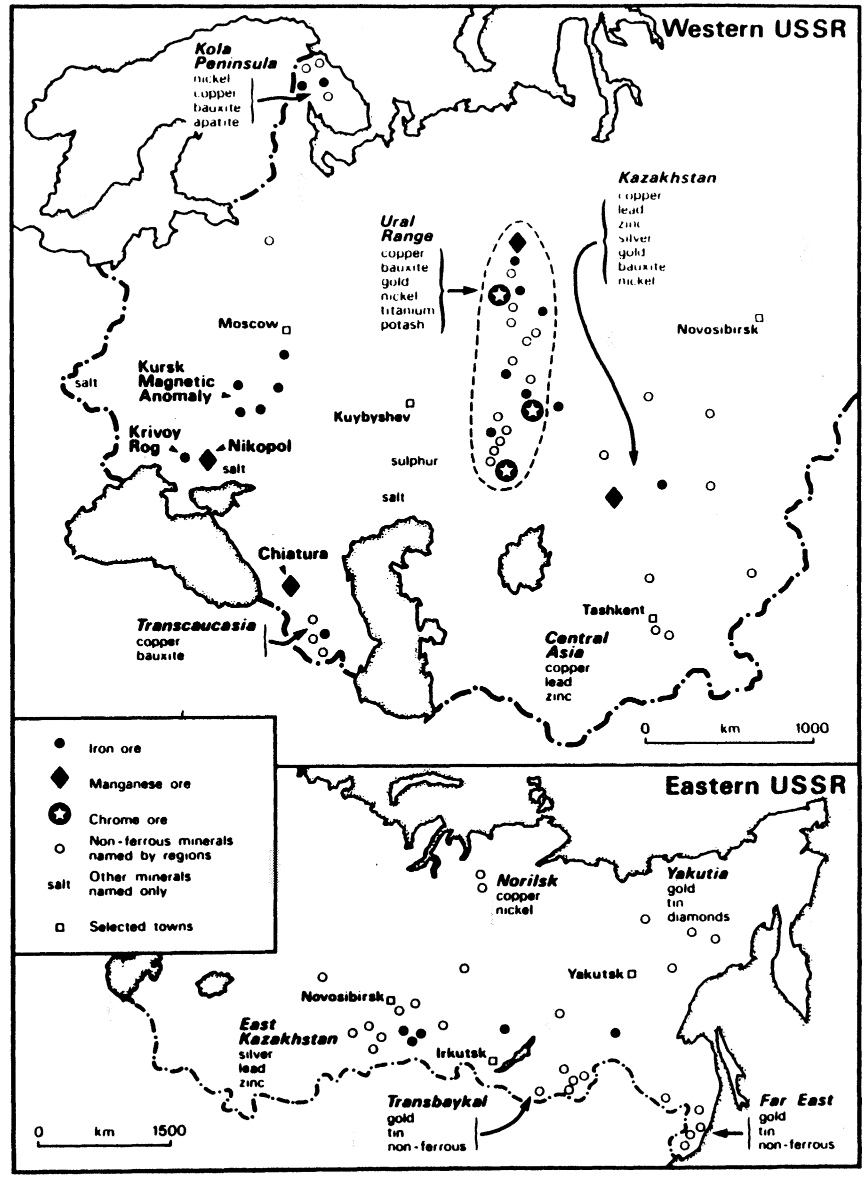
**1-12**

Figure 1-9
The extraction of selected non-fuel minerals

**Table 4.4**
**Non-fuel mineral reserves of the USSR (metal content of metals given)**

| *Mineral* | *Unit of measurement of reserves* | *Percent in USSR* | *World* | *USSR* | *USA* | *Canada* | *West Europe* |
|---|---|---|---|---|---|---|---|
| | | | *Quantity of known reserves in* | | | | |
| Potassium | Millions of tons | 38 | 109 | 42 | ... | 42 | 8 |
| Iron | Millions of tons | 32 | 96,700 | 31,000 | 2,000 | 11,700 | 8,500 |
| Manganese | Millions of tons | 29 | 700 | 200 | ... | ... | ... |
| Silver | Millions of ounces | 27 | 5,500 | 1,500 | 1,300 | 600 | ... |
| Asbestos* | Thousands of tons | 25 | 3,500 | 880 | 120 | 1,600 | ... |
| Nickel | Millions of tons | 13 | 75 | 10 | ... | 10 | ... |
| Copper | Millions of tons | 13 | 310 | 40 | 85 | 10 | ... |
| Phosphorus | Millions of tons | 12 | 22,000 | 2,600 | 6,800 | ... | ... |
| Sulphur | Millions of tons | 12 | 2,470 | 300 | 305 | 155 | 60 |
| Lead | Millions of tons | 11 | 95 | 10 | ... | 12 | 8 |
| Chromium | Millions of tons | 9 | 940 | 80 | ... | ... | ... |
| Antimony | Thousands of tons | 6 | 4,000 | 250 | ... | ... | ... |
| Zinc | Millions of tons | 6 | 124 | 8 | 34 | 25 | 14 |
| Aluminim | Millions of tons | 5 | 1,170 | 60 | 9 | ... | 38 |
| Tin | Thousands of tons | 5 | 4,330 | 210 | ... | ... | ... |
| Industrial diamonds | Millions of carats | 4 | 630 | 25 | ... | ... | ... |
| Tungsten | Millions of pounds | 1 | 2,900 | 27 | 100 | 24 | 30 |

*Notes.* * Production; ... where no figure is given, there are few or no reserves
*Source* US Bureau of Mines (1970)






Source: J.P. Cole, Geography of the Soviet Union, pp. 104 & 105.
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to supply Eastern Europe with low-cost energy has been an important element of its foreign policy. [20] Exporting oil and gas have also allowed the Soviets to earn hard currency, although the direct impact to date of the Soviet Union on world oil markets has been relatively small. [21]

Growth of the energy sector has underpinned Soviet industrial growth rates for many years, and current problems, reflected in declining growth rates, may have serious long-term economic consequences. Beginning in the late 1970s, supplies of oil and coal suffered setbacks. Energy costs rose because of the growing remoteness and lower quality of newly-discovered reserves. [22]

In 1989 aggregate energy production fell 0.4 percent for the first time since World War II. Production was affected by a merger of the oil and gas ministries in June 1989 that reportedly created administrative chaos, by the July coal strikes, and an inability by many enterprises to assume the new responsibilities thrust on them by *perestroika*. [23] Wasteful energy use remains a serious shortcoming of the Soviet economy. [24] **Figure 1-10** shows the location of energy reserves in the U.S.S.R. Individual energy sectors are discussed below. [25]

*Crude petroleum.*-- Crude petroleum production began to level off in the early 1980s after three decades of steady growth. [26] In 1989, Soviet crude petroleum and natural gas condensate production decreased by 2.8 percent when compared with the same time period in 1988. Exports of oil to the West were down significantly, by more than 7 percent. The decline in production was mostly due to acute shortages of oil-field equipment, pipes, and oil-field chemicals because domestic suppliers cut the production of unprofitable equipment and supplies for the oil industry. [27]

There are also technology-related factors that have had a negative impact on Soviet production capabilities. Soviet engineers have not developed advanced techniques for exploring and drilling in harsh environments, or for recovering larger portions of identified reserves. Certain secondary and tertiary recovery practices, such as pumping water into the ground to make oil flow toward the wells, increase initial yields but in fact reduce the total amount of oil that can be recovered over the life of the site. Much of the indifference to overall recovery techniques can be traced to traditional Soviet concern with volume rather than efficiency.

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[20] U.S.S.R. Energy Atlas, Central Intelligence Agency 1985, p. 14.

[21] EIU Country Profile 1989-90, p. 27.

[22] Ibid.

[23] Ibid.

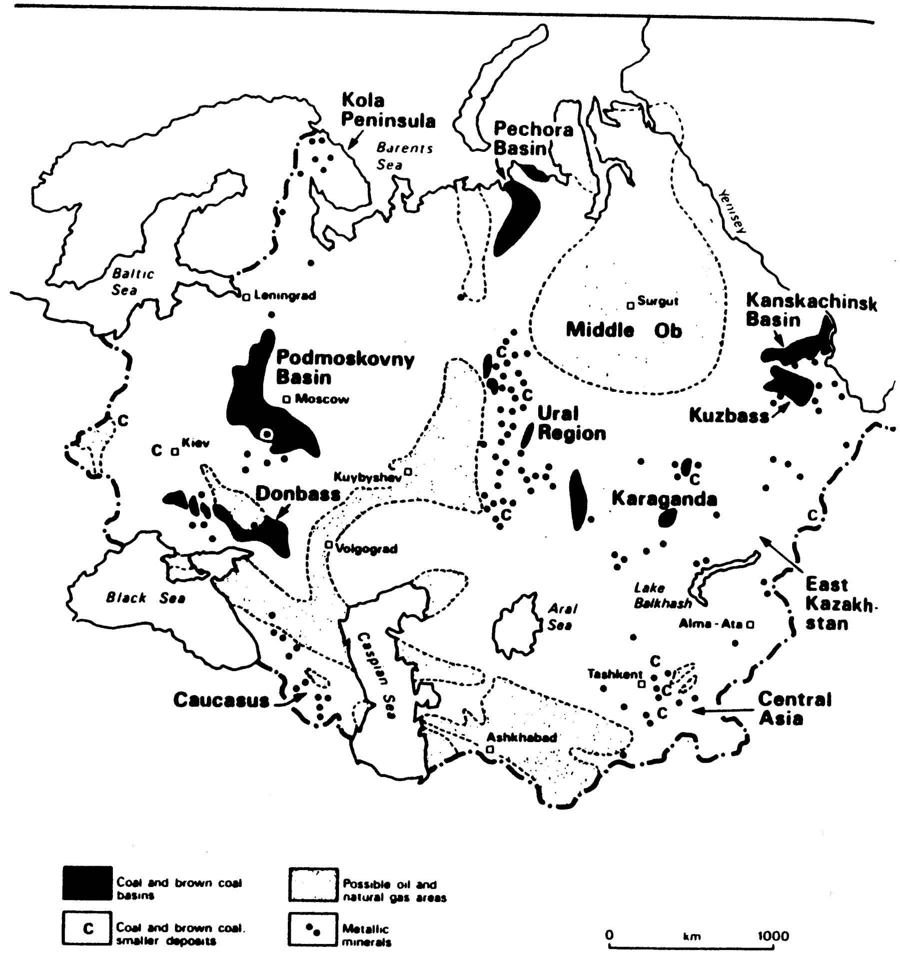
[24] FBIS, January 29, 1990, p. 111.

[25] See generally U.S.S.R. Energy Atlas, Central Intelligence Agency, 1985.

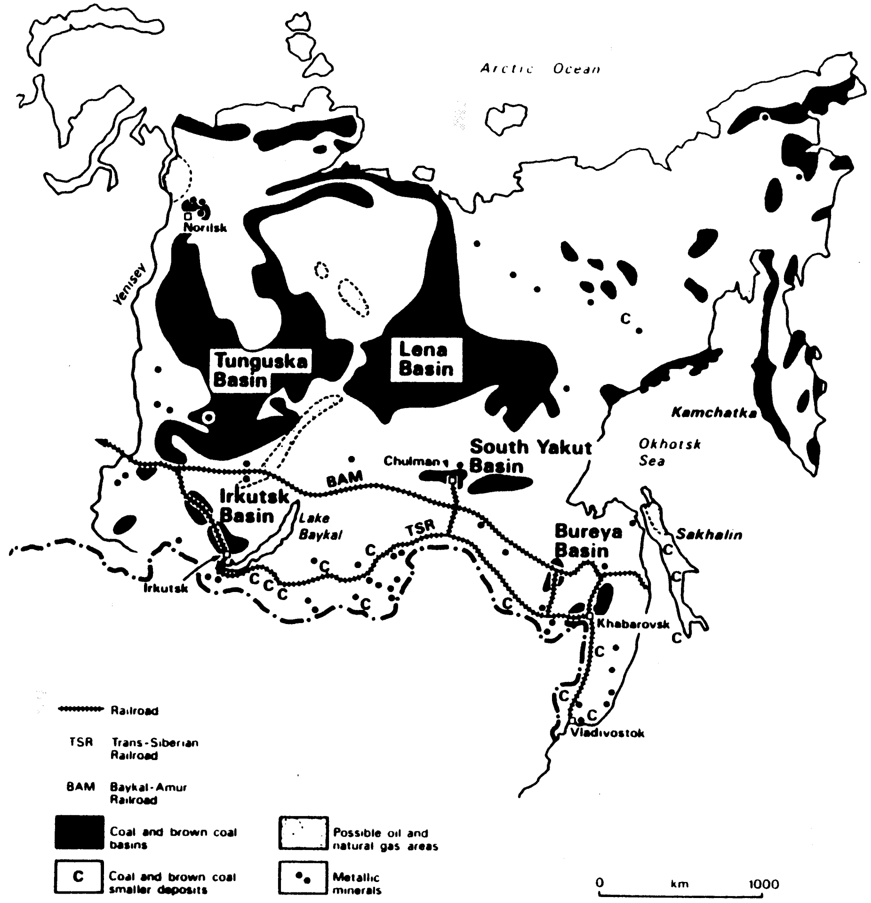
[26] Ibid, p. 6.

[27] For more information on recent performance in the Soviet energy sector, see PlanEcon Report, PlanEcon Inc., Nov. 24, 1989, p. 11, and PlanEcon Report, PlanEcon Inc., Mar. 7, 1990.

Figure 1-10
Mineral resources of the U.S.S.R.




Mineral resources of the USSR west of the River Yenisey




Mineral resources of the USSR east of the River Yenisey



Source: J.P. Cole, Geography of the Soviet Union, pp. 101 & 102.
Reprinted with permission.

*Coal.*-- Much of the growth in oil and gas has come at the expense of coal. The industry has faced problems in recent years, stemming from deteriorating conditions in major producing mines, too little new capacity coming on-line, shortages in labor and declines in productivity, and poorer quality of newly-discovered reserves. [28]

Coal production figures in 1989 showed a decline of 4.1 percent when compared with the corresponding period for the previous year. Gross output for 1989 was 740 million metric tons (mmt), compared to 772 mmt for 1988. This decline reflects the impact of the July 1989 coal strike and a general work slowdown, and resulted in decreased exports of coal both to CMEA countries and to the West. [29]

*Natural gas.*-- Natural gas has assumed a growing importance to the Soviet Union in both domestic energy use and exports for hard currency. West Siberia contains the newest and most important gas fields and is the source of the Siberia-to-Western Europe natural gas pipeline. The Soviet Union has been exporting natural gas to Europe since the early 1970s. [30]

The Soviet Union also possesses large reserves of gas condensate--liquid hydrocarbons that condense from associated and non-associated gas when it is extracted from the reservoir. Gas condensate production statistics are included with those of oil production. Reserves are distributed widely throughout the U.S.S.R. Significant production of gas condensate was not achieved until the early 1970s. [31]

Soviet production of natural gas increased 3.4 percent in 1989 when compared with 1988. This increase is considerably less than the average annual growth rate of 7.4 percent enjoyed in 1981-88, and is insufficient to offset declines in the production of oil and coal. [32]

*Nuclear energy.*-- Following the accident at the Chernobyl nuclear power plant in April 1986, Soviet planners scaled back the nuclear energy program. Introduction of post-Chernobyl safety modifications delayed installations of nuclear power-generating capacity. A nuclear power station southwest of Yerevan was dismantled after the Armenian earthquake of December 1988, and plans to construct a nuclear power station of Azerbaijan were scrapped. Recent revisions of the long-term

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[28] U.S.S.R. Energy Atlas, p. 37.

[29] PlanEcon Report, Nov. 24, 1989 and Mar. 7, 1990.

[30] U.S.S.R. Energy Atlas, p. 12.

[31] Ibid., pp. 15, 23.

[32] PlanEcon Report, Nov. 24, 1989 and Mar. 7, 1990.

Soviet energy balance call for a reduction in planned nuclear energy capacity. [33] There is evidence that Soviet public opinion is turning against nuclear power. [34]

*Environment.*-- The Soviet Union faces a growing environmental crisis--the product of waste, carelessness, an emphasis on the development of heavy industry, and lack of controls in production, extraction, and disposal. Consequently, the state of the environment is generating more interest in the Soviet Union. Total environmentally-related expenditures grew by over 4 percent in 1989, and discharge of pollutants into the atmosphere from stationary sources fell by 5 percent. However, high levels of air pollution are still recorded in many major cities, and contamination of water reservoirs from industrial and domestic effluent has not been contained. Efforts at more efficient fuel consumption have met with limited success, with the energy-intensiveness of production falling by only 0.7 percent. [35]

The United States and the Soviet Union made progress in 1989 toward joint recognition and resolution of certain environmental problems. On May 11, 1989, Secretary of State James Baker and Soviet Foreign Minister Eduard Shevardnadze signed an agreement pledging to work out a joint plan of extraordinary measures in the event of a spillage of oil or other harmful substances in the Bering and Chukotka seas. In accordance with the terms of the plan, each country pledged assistance to the other in the event of a major ecological disaster. [36] In June 1989 the first joint session of the U.S.S.R. Academy of Sciences and the U.S. National Academy of Sciences Committee on Global Ecology was convened under the co-chairmanship of the U.S.S.R. Academy of Sciences and the U.S. National Academy of Technical Sciences. The task of the committee, which includes prominent scientists and specialists from the two countries in the field of environmental protection, is to determine future avenues for research on global ecology, to identify priorities in resolving ecological tasks at national, regional, and international levels, and to prepare scientific recommendations for the world community on the most pressing environmental problems. [37]

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[33] 57th Quarterly Report, Trade Between the United States and the Nonmarket Economy Countries During 1988, USITC Pub. 2176, May 1989, p. 22. Hereafter cited as 57th Quarterly Report....

[34] A recent questionnaire surveyed attitudes toward nuclear power in the Soviet Union. Even among professional nuclear scientists, less than half were unconditional supporters of nuclear power engineering. Sixty percent of the experts felt it necessary to slow down or even stop construction of nuclear facilities and concentrate on solving safety problems. FBIS, Mar. 2, 1990, pp. 39-42.

[35] FBIS, Jan. 29, 1990, pp. 108-9.

[36] FBIS, May 11, 1989, p. 9.

[37] FBIS, June 6, 1989, p. 9.



1-16

**Human resources**

*General characteristics.--* The following table shows relevant population characteristics for the Soviet Union as compared with the United States in 1989: [38]

| | U.S.S.R. | U.S. |
|---|---|---|
| Population . . . . . . . . . . . . . | 288,742,345 | 248,231,030 |
| Birth rate . . . . . . . . . . . . . | 18/1,000 population | 15/1,000 population |
| Death rate . . . . . . . . . . . . . | 11/1,000 population | 9/1,000 population |
| Infant mortality rate . . . . . . . | 25 deaths/1,000 live births | 10 deaths/1,000 live births |
| Life expectancy at birth . . . . | 64 years male | 72 years male |
| | 74 years female | 79 years female |
| Total fertility rate . . . . . . . . . | 2.4 children born/woman | 1.9 children born/woman |

*Nationalities.--* The Soviet Union is made up of over 100 ethnic groups. Fifty-two percent of the U.S.S.R.'s population is Russian, according to the 1979 census, [39] giving ethnic Russians only a tenuous majority. Demographic trends show the population in the Asian republics and the Caucasus growing much faster than in the Russian or other Slavic republics. Such a situation contributes to political instability, uneven distribution of labor, and to many Russians, security risks -- since the areas of fastest population growth are on the periphery of the country and do not identify with the dominant Russian culture. Attempts to "Russify" non-Russian republics have tended to exacerbate ethnic tensions.

Roughly 60 percent of the population is estimated to be atheist. Of the remainder, 20 percent identify themselves as Russian Orthodox, 10 percent as Muslim, 7 percent as Protestant, Georgian Orthodox, Armenian Orthodox, or Roman Catholic, and less than 1 percent as Jewish. [40] Adherents of Islam, predominantly Shiite Moslem, are the fastest-growing ethnic group in the U.S.S.R.

The country's 15 republics, grouped very roughly by ethnic identity, have always formed an uneasy federation at best. Within the past year, however, nationalist tensions have escalated precipitously. Glasnost and democratization are also leading to regionalization and ethnic divisions within the Communist Party of the Soviet Union (CPSU). [41]

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[38] The World Factbook 1989, Central Intelligence Agency, 1989.

[39] Ibid.

[40] Ibid.

[41] See generally Report on the U.S.S.R., RFE/RL Inc. (Vol. 1, no. 52, Dec. 29, 1989).

Theoretically, the Soviet Constitution of October 7, 1977, gives republics the right to secede from the Union. In an effort to forestall secession attempts, Gorbachev proposed in early 1990 the creation of a new Soviet federation with increased autonomy for all republics but has offered few details. The areas of most prominent ethnic unrest are: [42]

- *The Baltics.*-- Annexed by the Soviet Union in 1940, Lithuania, Latvia, and Estonia have begun movements toward independence. [43] Cooperation among Lithuania, Latvia, and Estonia is notable; there are proposals to establish a Baltic common market. On August 23, 1989, the fiftieth anniversary of the signing of the Molotov-Ribbentrop pact, more than 2 million Balts linked hands in a human chain extending from Tallinn through Riga to Vilnius in a unified call to revoke the pact and reverse its consequences.

  *Lithuania.*-- The restructuring of Lithuanian society and political life, led by the Lithuanian Restructuring Movement ("Sajudis"), gathered momentum in 1989. The Lithuanian Communist Party has been forced to make radical changes, moving further away from Moscow's control. The Lithuanian Supreme Soviet approved changes in the Constitution making Soviet laws valid in Lithuania only after ratification by the republic. A law on economic sovereignty went into effect January 1, 1990. On March 11, 1990, the Lithuanian legislature declared the republic independent of the Soviet Union and elected Vytautas Landsbergis, a non-Communist, head of state. The name of the republic was also changed to Republic of Lithuania, dropping the "Soviet Socialist" prefix.

  *Latvia.*-- Influence of the Popular Front of Latvia and other unofficial organizations grew steadily in 1989. The factionalized Latvian Communist Party is being led by, rather than controlling, popular opinion. An economic sovereignty law was passed and restrictions on religious activity were lifted.

  *Estonia.*-- A series of legislative initiatives in 1989 transferred increased power away from Moscow and to republican institutions. Estonian was made the official language and a separate currency was introduced January 1, 1990. An economic sovereignty law was passed. In November, the Estonian Supreme Soviet passed a resolution declaring the 1940 annexation by the U.S.S.R. to be null and void. The independent press is flourishing.

- *Ukraine.*-- Secessionist sentiment is strong in the western part of the republic, which was seized from Poland in 1939, but only moderate in the remainder of the region. The Ukrainian national front, Rukh, says it does not favor full independence, and the Ukrainian Communist Party is conservative.

- *Moldavia.*-- Maintains a common language with Romania; was a part of Romania until 1946. Demands to be re-incorporated into Romania could gain momentum in 1990 following the events of late 1989 that led to the overthrow and execution of longtime Romanian leader Nicolae Ceausescu.

[42] Summaries offered below are extracted from Report on the U.S.S.R. RFE/RL, Inc. (Vol. 1, no. 52, Dec. 29, 1989).

[43] The United States does not recognize the incorporation of Estonia, Latvia, and Lithuania into the Soviet Union.



1-18

*The Caucasus.--*

- *Georgia.--* The political situation is in a state of flux. Violent suppression of peaceful demonstrators by the U.S.S.R. Interior Ministry on April 9, 1989, served to exacerbate long-standing anti-Soviet sentiment. So far, however, there has emerged no cohesive political movement. There are dozens of small parties (including one calling for restoration of the former monarchy) but little cooperation among them. Much of the top Georgian leadership resigned after the April 9 violence, and in November the Supreme Soviet of the republic passed amendments to the Georgian Constitution affirming ownership of the republic's natural resources and stipulating that laws passed by the U.S.S.R. Supreme Soviet are invalid if they are contrary to the interests of the republic.

- *Armenia and Azerbaijan.--*

  *Nagorno-Karabakh.--* The most publicized ethnic dispute in this region centered over the autonomous oblast of Nagorno-Karabakh in Azerbaijan, beginning in February 1988. The Armenian population of the region demanded reunification with Armenia, and the resultant violent clashes cost hundreds of lives. The situation has not been resolved.

- *Central Asia.--* Ethnic disturbances cost hundreds of lives in Soviet Central Asia in 1989. Inter-ethnic rivalries combined with poor social conditions in Uzbekistan, Turkmenistan, and Kazakhstan have created a volatile climate. Though the Central Asian republics are becoming more self-assertive, the process of *perestroika* has continued to lag behind other more advanced regions in the western U.S.S.R. While informal political groups have begun to proliferate, only Uzbekistan has a popular front similar to those found in western republics.

*Education.--* The Soviet Union claims a literacy rate of 99 percent, with Russian as the official language. [44] In 1987, 76.4 percent of the working population was cited as having at least a secondary level of education; 12.5 percent had a higher level. Enrollment in higher educational establishments (VUZs) decreased by 2 percent in 1989; enrollment in secondary special educational establishments decreased by 6 percent. [45]

*Profile of the workforce.--* Officially, unemployment does not exist in the Soviet Union. [46] Practically, however, there is a small amount of frictional unemployment -- possibly around 2 percent of the work force. [47] There is also evidence of a segment of somewhat longer-term unemployed (previously, officially designated as parasites and liable to prosecution). Many of these individuals

[44] There are over 200 languages and dialects spoken in the Soviet Union; 18 of these have more than 1 million speakers. These 18 non-Russian languages are taught in schools until the 6th grade; 6 non-Russian languages are taught until the 10th grade. After 10th grade, Russian is the official language of instruction. All higher education and technical and scientific literature is in Russian.

[45] FBIS, Jan. 29, 1990, pp. 107-8.

[46] Accordingly, there are no unemployment benefits.

[47] Frictional unemployment is temporary unemployment caused by dynamic changes in the economy. It is similar to "voluntary" unemployment.

are occupied in the illegal second economy, and may become recognized as productively employed as Gorbachev implements further reforms. There is also a strong possibility that official unemployment will grow as Gorbachev's reforms eliminate over-staffing of enterprises. [48]

The labor force consists of 151 million civilians, of which 78 percent are employed in industry and other nonagricultural fields and 22 percent are employed in agriculture. **Figure 1-11** shows the size of the agricultural, industrial, and total labor force for selected years. In 1987, 66 percent of the population lived in urban areas; 34 percent lived in rural areas. [49] **Figures 1-12 and 1-13** show the density and distribution of population in the U.S.S.R. In 1988 there was a shortage of skilled labor. Ninety-eight percent of all workers are union members. All trade unions are organized within the All-Union Central Council of Trade Unions (AUCCTU) and conduct their work under the guidance of the Communist Party. [50]

## Administrative structure

Administrative structure in the Soviet Union is complex and centered around two primary groups: politico-administrative and economic planning regions. These regions and their functions are discussed below. **Appendix A** shows the current structure of Soviet ministries and state committees and administrative changes in the foreign trade structure of the U.S.S.R.

*Politico-administrative regions.--* The primary political subdivision in the U.S.S.R. is the Republic. There are 15 Soviet Socialist Republics (S.S.R.s). [51] The S.S.R.s are grouped around the fifteen major nationalities of the U.S.S.R. [52] There are two secondary-level political subdivisions,

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[48] EIU Country Profile 1989-90, p. 20.

[49] Ibid., p. 10.

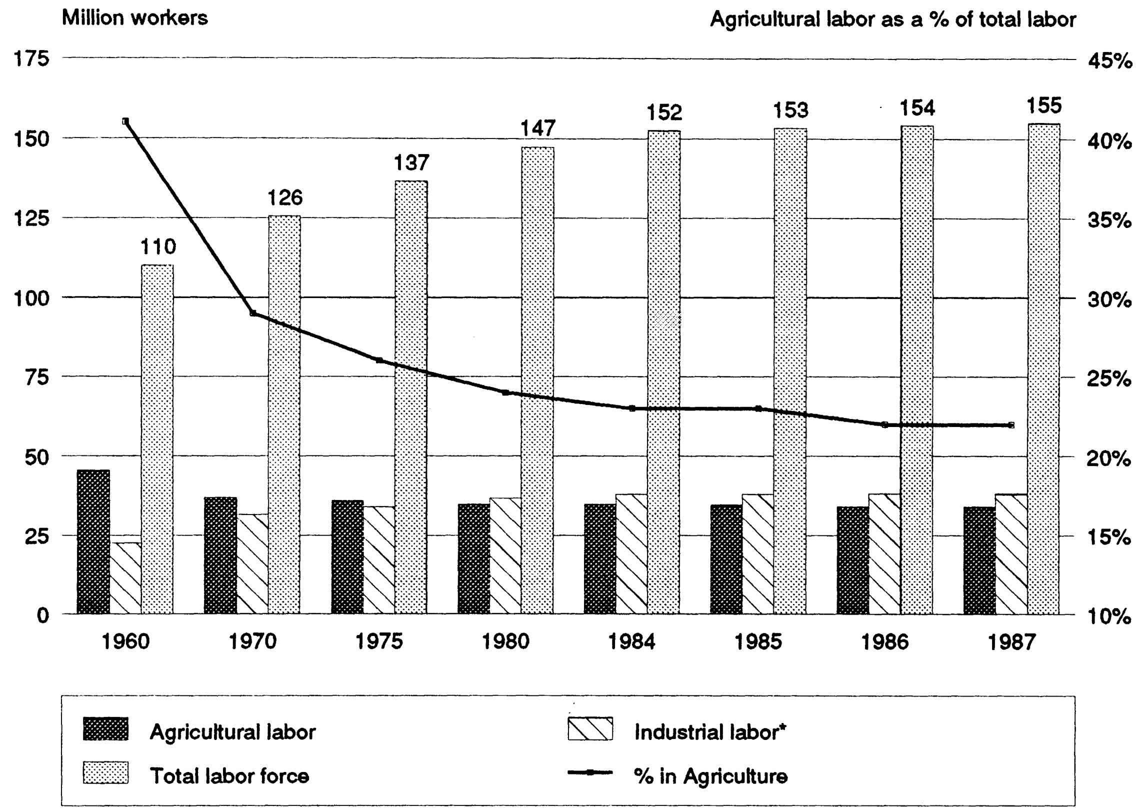
[50] The World Factbook 1989, Central Intelligence Agency, 1989.

[51] The 15 S.S.R.s are Russia, Armenia, Azerbaijan, Belorussia, Estonia, Georgia, Kazakhstan, Kirgizia, Latvia, Lithuania, Moldavia, Tadjikistan, Turkmenistan, the Ukraine, and Uzbekistan. Prior to 1956, there were 16 Republics. The Kerelo-Finnish Republic was downgraded to the status of an Autonomous Soviet Socialist Republic (A.S.S.R.) within the Russian Republic (R.S.F.S.R.).

[52] According to the current constitution of the U.S.S.R., the criteria for Republican status are: (1) the sharing of an external border with the U.S.S.R.; (2) existence of a constituent ethnic population of at least 1 million; and (3) the titular ethnic population must represent a majority in its respective political territory. Two republics today fail to meet the majority representation criteria in their own Republics--Kazakhstan and Khirgizia. Lydolph, Geography of the U.S.S.R., pp. 17, 21 and 1984 supplement, p. 10.

**Figure 1-11**

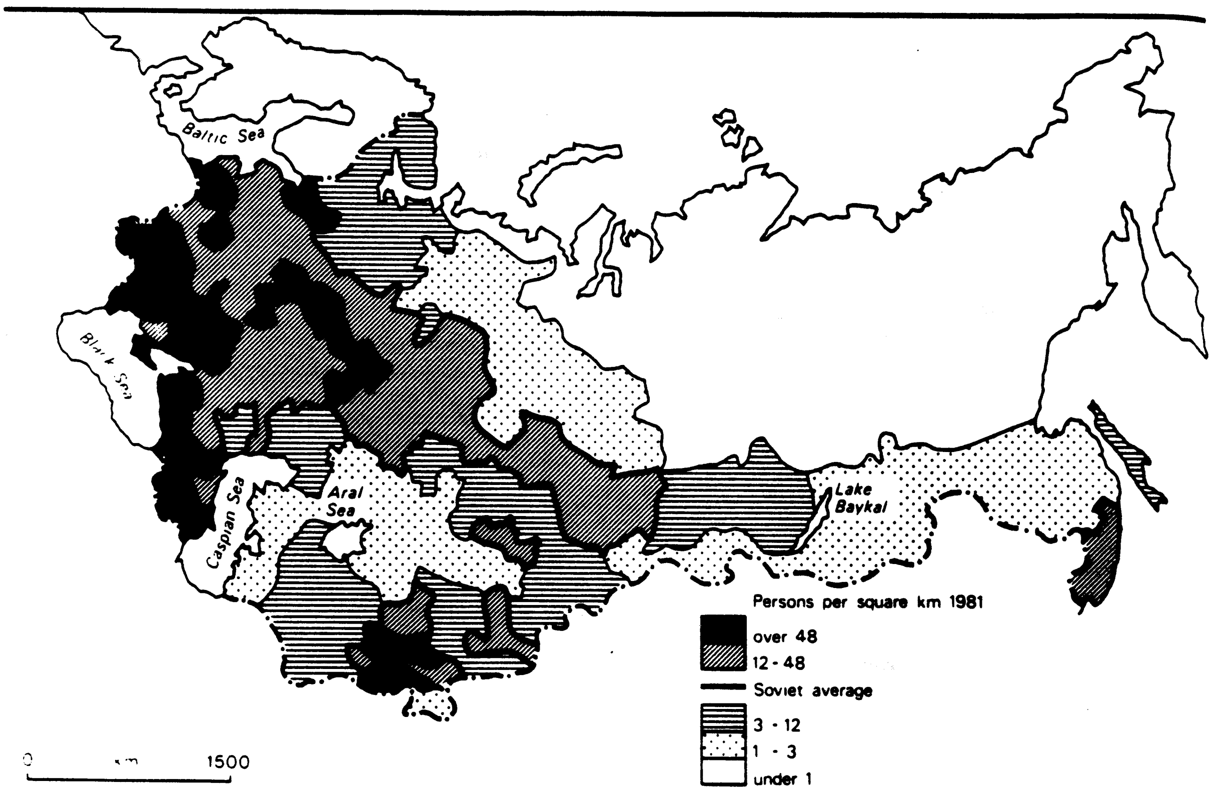
U.S.S.R.: Size of the agricultural, industrial, and total labor force, for selected years, 1960-87




Source: Compiled from data in the CIA Handbook, 1989.

* Includes manufacturing, mining, & construction

**Figure 1-12**
**Density of population in the U.S.S.R.**




Source: J.P. Cole, Geography of the Soviet Union, p. 244.
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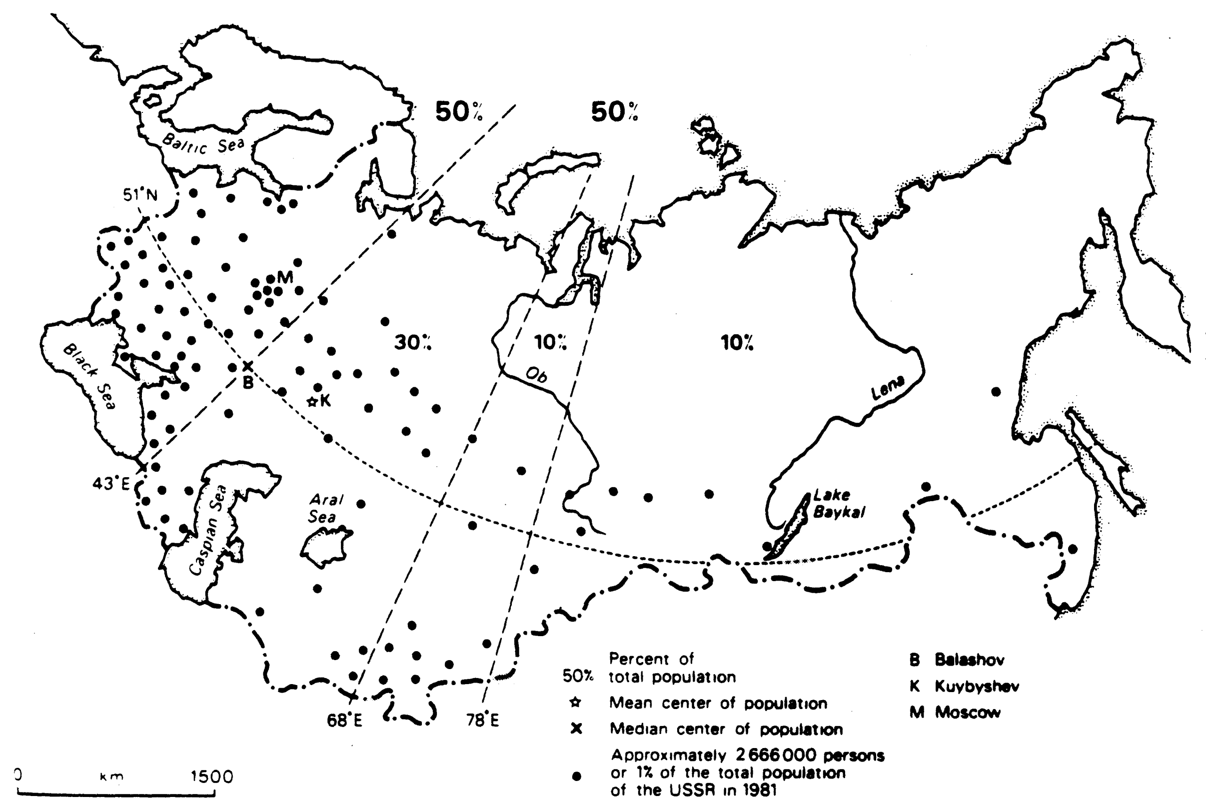
**1-22**

**Figure 1-13**
**Distribution of population in the U.S.S.R.**




Distribution of population in the USSR in 1981. Each dot represents roughly one percent of the total population of the USSR and is placed in an area within which the one percent falls. The advantage of this method is that it allows a quick count of population in any part of the USSR. For example, the most easterly 10 percent of the population can easily be marked off on the map. Roughly half of the population of the USSR is to the west of Balasnov, a town not far southwest of Moscow. Balashov is near the "median" center of gravity of population. About 10 percent of the total population of the USSR occupy about 60 percent of the national area

Source: J.P. Cole, Geography of the Soviet Union, p. 245. Reprinted with permission.

Autonomous Soviet Socialist Republics (A.S.S.R.s) and *Krays* [53]. A.S.S.R.s have no further administrative subdivision; however, S.S.R.s and *Krays* are further subdivided into *Oblasts* and Autonomous *Oblasts*. [54] *Oblasts* are further subdivided into Autonomous *Okrugs* and *Rayons*. [55] **Figures 1-14 and 1-15** show the politico-administrative organization of the U.S.S.R.

*Economic planning regions.*-- For the purposes of economic planning and statistical purposes, the U.S.S.R. is divided into 19 economic regions that do not necessarily coincide with politico-administrative boundaries. The economic regions serve as a basis for planning regional development on a large scale and for minimizing regional disparities. The economic regions each have organizing committees which may suggest, but not dictate, planning priorities. [56] **Figure 1-16** shows the various economic regions.

Soviet economic regions serve five main functions:

- Compiling inventories of natural resources.
- Applying the national economic plan at the local level, and conversely, formulating broader economic policy.
- Identifying regional inequalities.
- Tracking the flow of raw materials and finished goods.
- Development of "territorial production complexes" (TPCs); i.e., locating related industries in close proximity to (theoretically) enhance efficiency.

J.P. Cole, Geography of the Soviet Union, (Cambridge: University Press, 1984), p. 32.

[53] A.S.S.R.s are formed around relatively large and territorially cohesive nationalities not considered suitable for full S.S.R. status. Though the 1977 Constitution left the administrative units intact, ethnic Russians have migrated into national areas and diluted the national populations so much over the years that hardly any of the A.S.S.R.s satisfy the titular majority requirements. Lydolph, p. 21. *Krays* are only found in the Russian Soviet Federated Socialist Republic (R.S.F.S.R.), but are equal in administrative importance as A.S.S.R.s.

[54] *Oblasts* are similar to provinces and usually formed around a regional center of some size. Autonomous *Oblasts* are only subdivided from *Krays*.

[55] *Rayons* each have an average of 80,000 inhabitants.

[56] During the Khrushchev reforms of 1957-62, the politico-administrative and economic regions were combined into a system of 104 regional economic councils referred to as *sovnarkhozy*, which were to have considerable independence in planning. The reforms were abandoned after several years. See also the section entitled "Economic Development History."

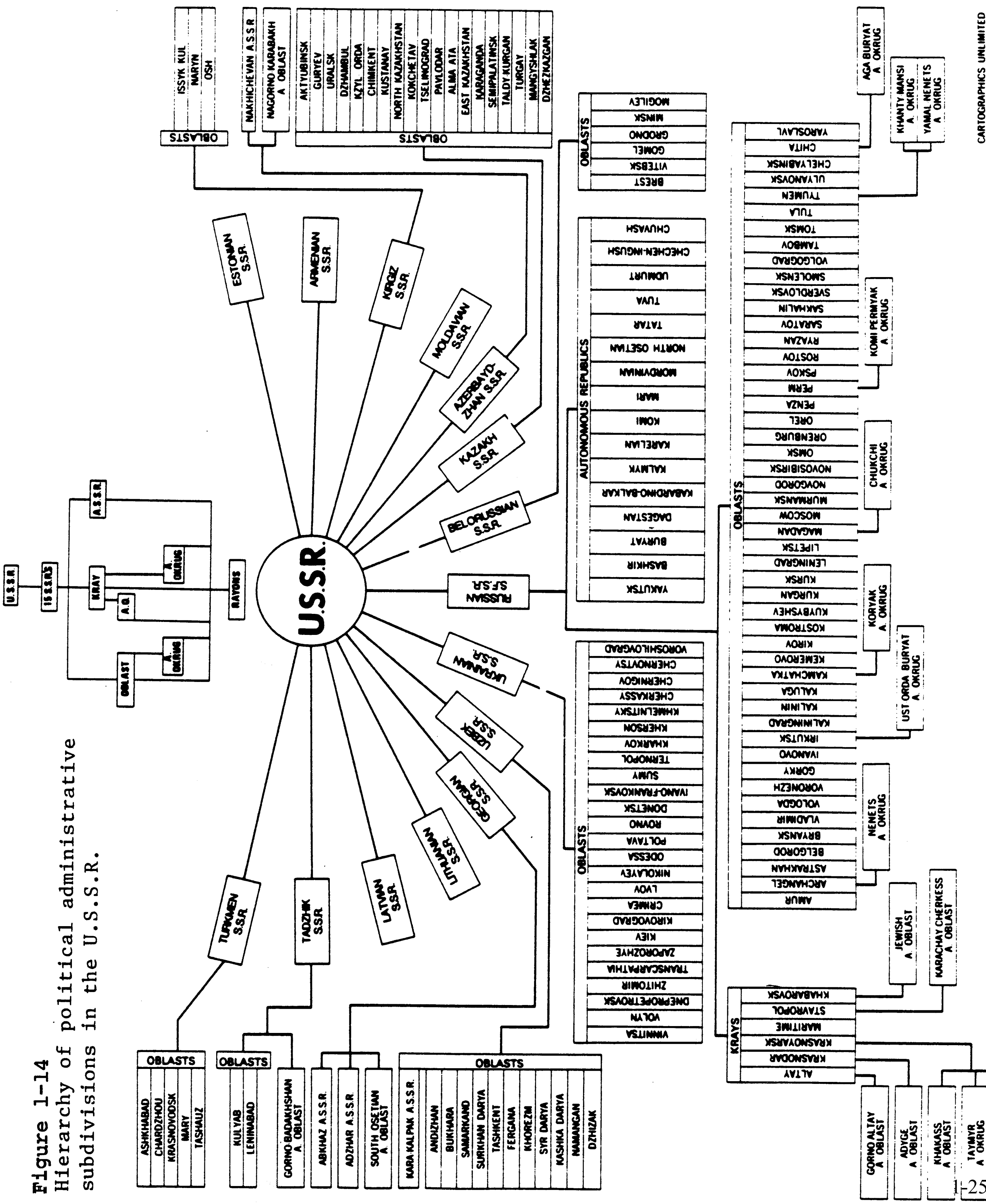



Figure 1-14
Hierarchy of political administrative subdivisions in the U.S.S.R.

Source: Paul E. Lydolph, Geography of the U.S.S.R.: Topical Analysis (Elkhart Lake, WI: Misty Valley Publishing, 1979), p. 24. Reprinted with permission.

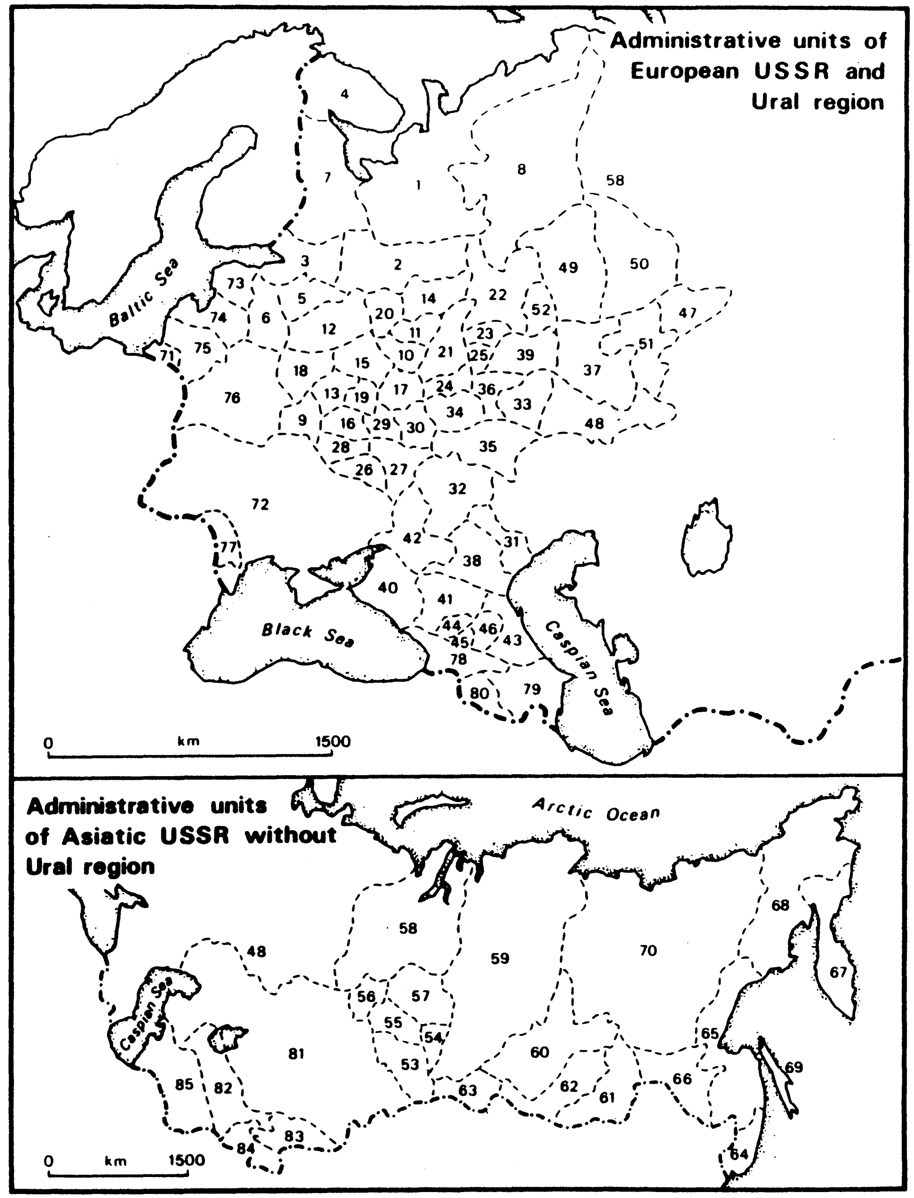
Figure 1-15
Administrative units of the U.S.S.R.

**Key to the numbering of the administrative units**

*RSFSR*
1 Archangel
2 Vologda
3 Leningrad
4 Murmansk
5 Novgorod
6 Pskov
7 Karelian (A)
8 Komi (A)
9 Bryansk
10 Vladimir
11 Ivanovo
12 Kalinin
13 Kaluga
14 Kostroma
15 Moscow
16 Orel
17 Ryazan
18 Smolensk
19 Tula
20 Yaroslavl
21 Gorky
22 Kirov
23 Mariysk (A)
24 Mordov (A)
25 Chuvash (A)
26 Belgorod
27 Voronezh
28 Kursk
29 Lipetsk
30 Tambov
31 Astrakhan
32 Vologad
33 Kuybyshev
34 Penza
35 Saratov
36 Ulyanovsk
37 Bashkir (A)
38 Kalmyk (A)
39 Tatar (A)
40 Krasnodar (K)
41 Stavropol (K)
42 Rostov
43 Dagestan (A)
44 Kabardino-Balkarsk (A)
45 Severo-Osetinsk (A)
46 Checheno-Ingushsk (A)
47 Kurgan
48 Orenburg
49 Perm
50 Sverdlovsk
51 Chelyabinsk
52 Udmurt (A)
53 Altay (K)
54 Kemerovo
55 Novosibirsk
56 Omsk
57 Tomsk
58 Tyumen
59 Krasnoyarsk (K)
60 Irkutsk
61 Chita
62 Buryat (A)
63 Tuvinsk (A)
64 Primorsk (K)
65 Khabarovsk (K)
66 Amur
67 Kamchatka
68 Magadan
69 Sakhalin
70 Yakutsk (A)
71 Kaliningrad

*Other Republics*
72 Ukraine
73 Estonia
74 Latvia
75 Lithuania
76 Belorussia
77 Moldavia
78 Georgia
79 Azerbaijan
80 Armenia
81 Kazakhstan
82 Uzbekistan
83 Kirgizia
84 Tadjikistan
85 Turkmenistan

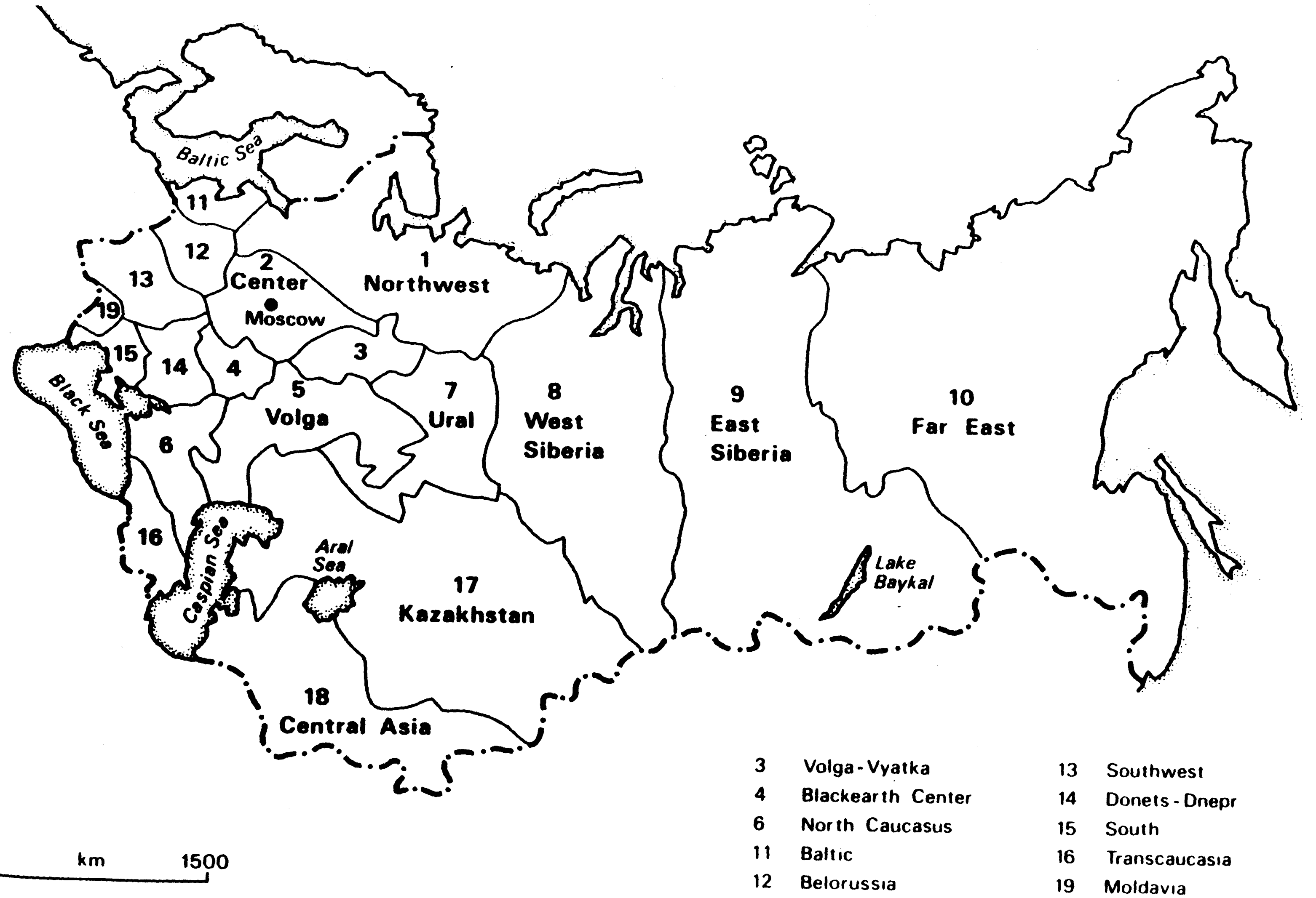
Notes (A) = Autonomous Soviet Socialist Republic
(K) = Kray






Source: J.P. Cole, Geography of the Soviet Union (London: Butterworths, 1984), pp. 33-34. Reprinted with permission.

Figure 1-16
Economic planning regions of the U.S.S.R.




Economic planning regions of the USSR

Source: J.P. Cole, Geography of the Soviet Union (London: Butterworths, 1984), p. 35. Reprinted with permission.

## Infrastructure

Though geographically much larger and more populous than the United States, the infrastructure of the U.S.S.R. is much less developed. The following tabulation shows a comparison of some indicators: [57]

| Item | U.S.S.R. | United States |
|---|---|---|
| Electricity: (1988) | | |
| Capacity . . . . . . . . . . . | 348,000,000 kW | 768,349,000 kW |
| Production . . . . . . . . . . | 1,730 billion kWh | 2,900 billion kWh |
| Railroads: (1987) | | |
| Total . . . . . . . . . . . . . | 146,000 km | 270,312 km |
| Electrified . . . . . . . . . . | 51,700 km | n.a. |
| Highways: (1987) | | |
| Total . . . . . . . . . . . . . | 1,609,900 km | 6,365,590 km |
| Hard-surface . . . . . . . . | 1,196,000 km | n.a. |
| Earth . . . . . . . . . . . . . | 413,900 km | n.a. |
| Inland waterways | | |
| (navigable, 1987) . . . . . | 122,500 km | 41,009 km |
| Pipelines: (1987) | | |
| Crude oil/ | | |
| refined products . . . . . . | 81,500 km | 275,800 km(1985) |
| Natural gas (1987) . . . . | 195,000 km | 305,300 km (1985) |
| Civil aircraft . . . . . . . . . . . | 4,500 | 3,297 (1985) |
| Airports (usable) . . . . . . . . | 4,530 | 15,422 (1981) |
| Telecommunications: | | |
| Radio stations (AM/FM) . | extensive | 10,092 |
| Television stations . . . . . | hundreds | 7,296 |
| Television sets (1982) . . | 85,000,000 | 150,000,000 |
| Radio receivers (1982) . . | 162,000,000 | 495,000,000 |
| Telephones (1982, est.) . | 24,255,000 | 196,351,000 |

The U.S.S.R. has less than one-half the capacity of the United States to produce electricity, and actually produces approximately 60 percent as much as the United States. The Soviet Union possesses one-half the railroads of the United States and only one-third of the highways. [58] Yet, the U.S.S.R. maintains three times as many inland waterways as the United States, an indicator of the historical importance of waterways in its economic development. Though the U.S.S.R. has more civil aircraft, it has two-thirds fewer airports. And despite its greater population and land mass, the U.S.S.R. has

[57] The 1989 World Factbook, Central Intelligence Agency, pp. 274, 309.

[58] Many roads in the Soviet Union are unpaved and therefore unusable during certain parts of the year.

only 56 percent as many television sets, 33 percent as many radio receivers, and only about 12 percent as many telephones as the United States.

**Figure 1-17** shows the location of the major airports in the U.S.S.R. **Figure 1-18** shows the Soviet rail transportation system. **Figure 1-19** shows the principal seaports of the U.S.S.R. and sea distances around the U.S.S.R.

## Economic development history

Any assessment of *perestroika* must be approached with an understanding of the unique economic development of the Soviet Union, guided as it has been by ideological--and idealized--goals. Soviet planners have often been forced to find pragmatic solutions to resolve discrepancies between the ideal conditions described by ideology and the situation as the planners actually found it.

The Soviet economy has continually been plagued by pervasive and persistent problems: resistance to innovation, inefficiency, poor quality, and supply-oriented policies that create indifference to demand. Some degree of economic tinkering has been a component of every five-year plan, but minor adjustments generally have had no effect on such a massive, bureaucratic system. Through the years there have been a series of identifiable, major reform attempts that alternated between greater and lesser degrees of centralized control. [59] These are briefly summarized in the paragraphs below.

*War communism (1918-21).*-- The Bolsheviks seized from the Provisional Government an economy already disrupted by the two revolutions of 1917. Workers had spent much time on demonstrations and little at their jobs. The transportation and communications systems were near breakdown, food shortages were spreading, and sporadic local seizures of property were occurring all over the country. [60] Wartime inflation was nearly 600 percent, production had fallen to between 30 and 40 percent of 1913 levels, and shortages of fuel were critical. [61]

To cope with the chaos and the impending civil war, the Bolsheviks resorted to a collection of experimental but draconian measures referred to as *war communism*, designed to mobilize existing resources and prevent the total collapse of the economy. This three-pronged program involved nationalization of banking, transportation, foreign trade, and large-scale industry; the rationing of basic goods and services along with requisitioning of peasant produce; and labor conscription. [62]

[59] For a comprehensive discussion of the Soviet economy and reform attempts since Khrushchev, see Ed A. Hewett, Reforming the Soviet Economy: Equality versus Efficiency (Washington, D.C.: The Brookings Institution, 1988).

[60] Donald W. Treadgold, Twentieth Century Russia (Chicago: Rand McNally & Co., 1972), p. 162.

[61] M. K. Dziewanowski, A History of Soviet Russia, (Englewood Cliffs, NJ: Prentice-Hall, Inc., 1979), pp. 132-3.

[62] Ibid.

**Figure 1-17**
**Location of major airports in the U.S.S.R.**


Main airports of the USSR. Source: Stanislavyuka (1977) p. 33

**Main goods carried on the railroad system in thousands of millions of metric ton-kilometers**

| | Total | Coal and coke | Oil | Iron and steel | Timber | Grain | Ores | Building materials | Fertilizers |
|---|---|---|---|---|---|---|---|---|---|
| 1980 | 3,440 | 629 | 460 | 279 | 252 | 137 | 237 | 457 | 125 |
| 1981 | 3,503 | 616 | 457 | 281 | 264 | 140 | 242 | 481 | 127 |

*Source Narodnoye khozyaystvo SSSR 1922–1982, p. 327*

**Goods and passengers carried by various modes of transport in the USSR in thousands of millions of metric ton-kilometers and passenr kilome**

| Goods | Total | Rail | Sea | River | Pipeline | Road | Air |
|---|---|---|---|---|---|---|---|
| 1960 | 1,886 | 1,504 | 132 | 100 | 51 | 99 | 1 |
| 1970 | 3,829 | 2,495 | 656 | 174 | 282 | 221 | 2 |
| 1980 | 6,184 | 3,440 | 848 | 245 | 1,216 | 432 | 3 |
| 1981 | 6,337 | 3,503 | 853 | 256 | 1,263 | 459 | 3 |
| *Passengers* | | | | | | | |
| 1960 | 250 | 171 | 1 | 4 | — | 61 | 12 |
| 1970 | 553 | 265 | 2 | 5 | — | 203 | 78 |
| 1980 | 891 | 332 | 3 | 6 | — | 390 | 161 |
| 1981 | 927 | 345 | 3 | 6 | — | 402 | 172 |

*Source Narodnoye khozyaystvo SSSR 1922–1982, p. 325*

Source: J.P. Cole, Geography of the Soviet Union, p. 320.
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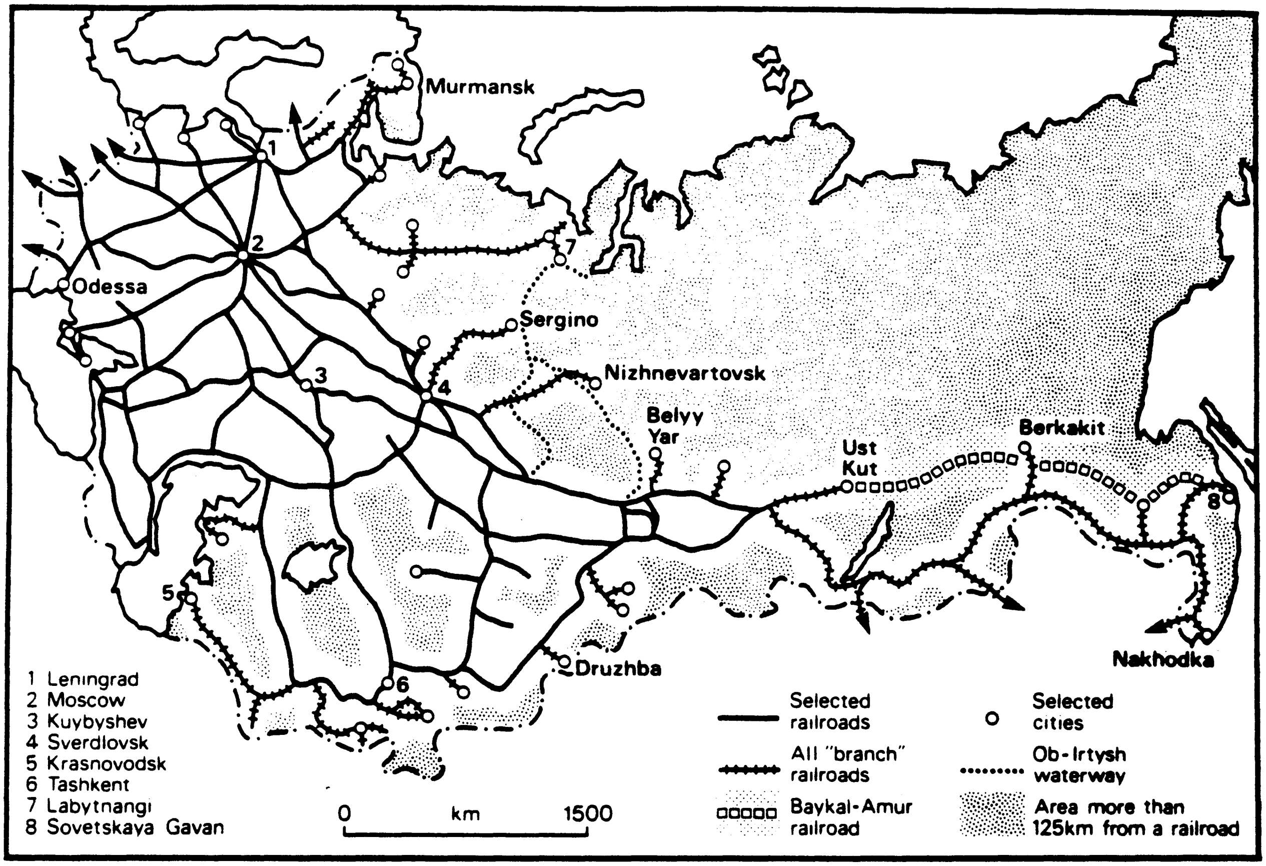
**Figure 1-18**
**The Soviet rail transportation system**




Simplified representation of the Soviet rail system indicating the main branches from the integrated network in the early 1970s. The rail system is not mapped here in detail. Attention is concentrated on one of its outstanding structural features. The general area in which the rail system forms a network is shown. From this network the individual "branch" lines are shown. Within the unshaded area on the map the network is dense around Moscow and in the eastern Ukraine. The radial layout of the system around Moscow contrasts with the network in the Donbass coalfield, where there is no one dominant urban center

Source: J.P. Cole, Geography of the Soviet Union, p. 310.
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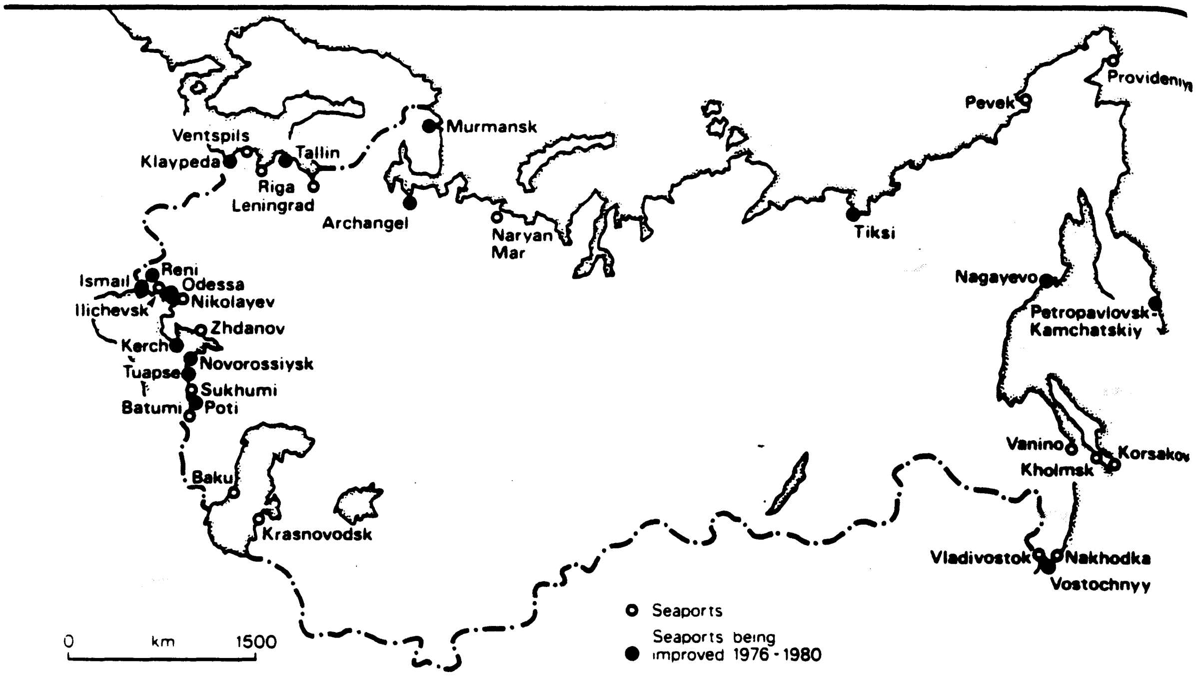
1-31

**Figure 1-19**
**Principal seaports of the U.S.S.R.**




The principal seaports of the USSR

**Sea distances around the USSR**

| Route | Distance (kilometers) |
|---|---|
| Leningrad-Vladivostok via Murmansk | 14,800 |
| Leningrad-Vladivostok via Suez | 22,800 |
| Leningrad-Vladivostok via South Africa | 30,000 |
| Odessa-Vladivostok | 17,400 |
| Leningrad-Murmansk | 4,300 |
| Vladivostok-Magadan | 2,600 |

Source: J.P. Cole, <u>Geography of the Soviet Union</u>, p. 314. Reprinted with permission.

By the end of 1920 some 60 percent of Russian industry was run by the State. In 1921 the task of long-term planning was transferred to a specialized institution, the State Planning Commission, or *Gosplan*. Rural workers were forced to supply to the State all produce above the specified subsistence minimum, [63] which helped compel workers toward the collective farms. [64]

While war communism contributed to breaking down the old capitalist order, it did little to build a new stable system. War communism failed largely because of peasant resistance, expressed in numerous uprisings. [65] Food and fuel were scarce, the railways were in ruin, and factories had no raw materials from which to produce needed items. By the end of 1920, total industrial production had dropped to about 13 percent of 1913 levels, grain output was less than 40 percent of 1916 levels and falling, and the output of consumer goods such as shoes and clothing was lower still. [66]

*New Economic Policy (1921-28).*-- By 1921 Lenin recognized that the transition to a socialist society could not be imposed overnight on an unready and unwilling population. He launched his New Economic Policy (NEP) to persuade people to work and to re-establish trade between urban and rural areas.

The NEP established a mixed economy. Some aspects of the economy, such as agriculture, were left in private hands with the peasant obligated to pay a specified tax in kind. The government retained centralized control of the "commanding heights" of the economy: banking, transportation and communications, the largest enterprises, and foreign trade. Private entrepreneurs were permitted to resume management of smaller concerns, to hire labor, and to trade. The market and small-scale private trade flourished, some degree of prosperity returned, and the NEP stabilized economic conditions for the regime.

The NEP was a shaky compromise between capitalism and communism--a reevaluation of the practical consequences of seizing power in a backward, agrarian society. In theory, the Communists and the capitalists were to coexist competitively, and the Communists would eventually demonstrate the superiority of socialism. In practice, however, the private enterprises showed superior efficiency and flexibility, while the state-run enterprises were sluggish and inefficient. One effect of the NEP was a phenomenon that came to be known as the "price scissors," a graphic metaphor for the growing

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[63] The principle of confiscation of surplus was an essential point of the socialist program.

[64] Dziewanowski, History of Soviet Russia, pp. 133-4.

[65] In February 1921 alone there were 118 major peasant uprisings in various parts of the country, along with strikes and riots in various urban centers, culminating with the revolt at the naval base of Kronstadt, located off the coast of Leningrad (at that time called Petrograd) in the Gulf of Finland. Frustrated with shortages of food and clothing and generally poor living conditions, the garrison elected a Provisional Revolutionary Committee and rejected war communism, calling for the democratization of the regime. The revolt was put down, but it represented a major challenge to Bolshevik authority. Reaction from abroad was to delay diplomatic recognition of the new Soviet government, and domestically, it forced the Bolsheviks to confront the failure of war communism. Dziewanowski, History of Soviet Russia, pp. 135-7.

[66] Treadgold, Twentieth Century Russia, p. 200.

disparity between the low prices that the government paid the peasants for their produce, and the rising prices the peasants were forced to pay for the often-inferior products of industry. The difference was pocketed by the government and went to finance further expansion, mostly of heavy industry, which was of little benefit to the peasantry. [67]

*Forced industrialization.*-- Following Lenin's death in 1924 through Stalin's consolidation of power in 1928, the "industrialization debate" raged between the two rival wings of the Party. The momentum of the NEP had stopped, victim of its inherent contradictions and the struggle to succeed Lenin. While both the Left and Right were committed to industrialization, they differed in their approach, arguing about the rate of industrialization and the sources of its financing. [68]

Under Stalin, the Soviet economy took on the structure that persists today. He instituted the first Five Year Plan in April 1929, ordering a huge increase in investment in heavy industry and coercion of the peasantry onto collective farms. Total industrial output was to be increased 250 percent; production in heavy industry was to be increased 330 percent. Output of pig iron was to be tripled; that of coal doubled; that of electric power quadrupled. Agricultural production was scheduled to increase 150 percent. Rationing was introduced in 1929 and the internal passport system was restored in 1932; both were means of ensuring a stable urban workforce. Wage differentials and piecework payments were sanctioned; working conditions and wages were fixed by the state, and collective bargaining agreements were abolished. The Soviet financial structure was fixed with the introduction of the turnover tax in 1930.

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[67] Dziewanowski, History of Soviet Russia, p. 188.

[68] The Right, led by Nikolai Bukharin, advised a more cautious, evolutionary approach. Bukharin proposed to continue the parallel-sector economy of the NEP, with the State continuing to control the "commanding heights" of the economy, and the private sector active in small industry, handicrafts, and individual peasant farming. He maintained that the only way out of the "scissor crisis" was to cut the prices of manufactured goods to encourage their demand, with accumulated industrial profits enhancing industrial growth throughout the economy. Given the opportunity to purchase needed and affordable goods, the peasantry would increase their food production and thereby increase the supplies to the urban population. Surplus goods could be used as barter to import the capital goods so badly needed for industrial expansion.

The Left, led by Leo Trotsky, advocated a more rapid and ambitious investment program in heavy industry. The Left insisted on speedy industrialization above all else. Recognizing that investment would have to take place at the expense of consumption, the Left planned to have the peasantry, particularly the kulaks, bear the brunt. The program advocated by the Left eventually won out, although the leaders of the movement did not. Stalin, jockeying for position, appeared to support the Right, using Bukharin in the struggle against Trotsky. The Right was misled by the fact that, at least on the surface, Bukharin's moderate theories fitted better with Stalin's "socialism in one country" plan. Once Trotsky and the Left Opposition were defeated, however, Stalin consolidated his power and launched into the five-year-plan economic model that has come to characterize the Soviet economy. Dziewanowski, History of Soviet Russia, pp. 189-201. See also Alexander Erlich, The Soviet Industrialization Debate 1924-28 (Cambridge: Harvard University Press, 1960).

*Collectivization.*-- Under Stalin's plan, 20 percent of the peasant farms were to be collectivized. The *kulaks* [69] were to be "liquidated as a class" while food production increased 150 percent. Any person opposed to collectivization, or to the Soviet regime in general, was denounced as a kulak. At the peak of collectivization the destruction assumed such massive proportions that it crippled the productivity of Soviet agriculture for at least two decades. The effort brutally uprooted millions of peasants, destroyed a fairly large class of prosperous farmers, and caused terrible damage. Dispossessed peasants fled to the cities or were deported to labor camps and compulsory settlements.

Conservatively, five million persons perished in the collectivization process. In 1928 there had been more than 25 million individually owned farms; by the end of 1930 the land had been redivided into some 250,000 collective farms and 4,000 state farms. In 1928 nearly 96 percent of the land was in private hands; by 1938 over 94 percent was controlled by the State. Opposition was so widespread and fierce that even the local militia were unable to cope with it and Red Army units had to be dispatched. In some localities, the resistance came to resemble a civil war.

*Post-World War II (1946-53).*-- The "Great Patriotic War" united the Russians and helped create a more liberal political atmosphere. [70] After the war the economy was in a shambles. The war had been financed by printing presses and currency was practically worthless. Stalin in 1947 forced a 1,000 percent devaluation to wipe out wartime cash savings and force idle persons to re-enter the labor force. Labor discipline and political controls were re-tightened. The fourth five-year plan, launched in 1946, offered the ambitious goal of exceeding the 1940 economic performance levels by following the well-established tradition of emphasizing heavy industry. Though industry recovered, agriculture was ignored and did not show signs of recovery until long after Stalin's death in 1953. [71]

*Khrushchev's reform attempts (1957-64).*-- In the years following Stalin's death it became apparent that his attempts at autarky had led to high production costs and vast inefficiencies. In 1957 Khrushchev, having consolidated his power, instituted reforms designed to give increased power to the regional economic councils (*sovnarkhozy*). The *sovnarkhoz* reforms were designed to correct the inflexibility of the central ministries, which were either disbanded or greatly scaled back. The

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[69] The term *kulak* literally means fist. *Kulaks* were the hard-working, more prosperous peasants who owned more land than they could cultivate and consequently had to hire labor. They also frequently served as local moneylenders. *Kulaks* were generally very efficient producers and much of the market grain came from them.

The government, ever fearful of "creeping capitalism" and of peasant power in a country where 80 percent of the population lived in the countryside, made *kulaks* the scapegoats for food shortages. Soviet propaganda portrayed *kulaks* as fat, prosperous usurers eager to exploit their less fortunate fellow villagers, accused them of withholding food production from the urban populations, and sought to make them "disgorge" their "surpluses" through collectivization. Dziewanowski, History of Soviet Russia, pp. 188-191.

[70] EIU Country Profile 1989-90, p. 4.

[71] Dziewanowski, History of Soviet Russia, pp. 283-4. During the immediate post-Stalin period, the U.S.S.R. was governed by a collective leadership and it was only in 1957 that Nikita Khrushchev clearly emerged as the dominant leader. EIU Country Profiles 1989-90, p. 4.

*sovnarkhozy* were to assess production in their individual regions, eliminating redundancy and improving efficiency. [72]

The *sovnarkhoz* reforms were unsuccessful. Rather than boosting productivity and per capita consumption, the reforms had the opposite effect. Local ministries tended to favor their own enterprises rather than support the enterprises of other regions, and the country seemed in danger of splitting into 100 or so separate economies. Within five years, the number of *sovnarkhozy* dropped by half and a central ministry was revived to coordinate planning at the union level. [73]

On the agriculture front, Khrushchev in 1954 began his "virgin lands campaign." This program was to ease the chronic grain shortage by sending thousands of young peasants and Party workers to transform the available arable land of North Kazakhstan and West Siberia into the "new granary of the Soviet Union." [74] Initially the program was successful, and the 1956 harvest was the best in Soviet history. Khrushchev was fascinated by American agricultural technology and was determined to rescue Soviet agriculture from its persistent backwardness by using selective capitalist technological methods, including extensive fertilization. [75]

By 1960 the economy was slowing down. Harvests were bad in both 1959 and 1960, and livestock were starving to death. After the initial success of his virgin lands campaign, Khrushchev poured manpower, machinery, and resources into the region to the neglect of the older producing regions such as the Ukraine. Hasty cultivation of the open steppes also caused massive soil erosion and the region was an ecological disaster by the early 1960s. The country's 1963 harvest was so disastrous that the Soviet Union had to negotiate two enormous purchases of grain from Canada (6.5 million tons) and Australia (1.6 million tons). [76] The extent of the grain purchases reflected the magnitude of the failure of the Soviet collectivized system and resulted in a catastrophic setback to Khrushchev's prestige. [77] He was removed from power in 1964.

*Brezhnev era (1964-82).*-- In 1965, the Brezhnev/Kosygin government instituted reforms that introduced limited demand and cost sensitivity by including sales and profit levels as major indicators. Corresponding changes were made in prices, and an incentive system was introduced (though never fully implemented). While a limited degree of decentralization was allowed, the focus of the program

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[72] Hewett, Reforming the Soviet Economy, pp. 223-7.

[73] Ibid.

[74] One of Khrushchev's chief supporters in the virgin lands campaign was the then-First Secretary of the Kazakhstan party, Leonid Brezhnev. Dziewanowski, History of Soviet Russia, pp. 308-9.

[75] Khrushchev intended to surpass the United States in production of meat, milk, and butter by 1961--a highly ambitious and nearly impossible goal. Ibid., p. 332.

[76] Ibid., p. 349. The Soviet Union tried to purchase 5 million tons of grain from the United States, but U.S. insistence that the grain be transported in U.S. ships, along with difficulties in arranging long-term credit, scrapped the deal.

[77] Ibid.

was re-centralization. The reforms were unsuccessful because too little market responsiveness was demanded, and the sales and profit indicators became, in essence, no different from the old output targets. In addition, partial decentralization proved destabilizing when complementary sectors were not similarly decontrolled.

Brezhnev's main objective, however, was stability. [78] In the early 1970s the impetus for reform mostly subsided. Brezhnev tried to streamline the administrative hierarchy in 1973; six years later he issued a decree proposing changes to the incentive system and calling for the introduction of performance indicators. But rapidly rising oil prices produced windfall gains and the gold market was strong, a combination of factors that again allowed the Soviet Union to show economic growth without facing fundamental problems with the centralized system. By the latter part of the decade, however, the problems resurfaced. Brezhnev, by then old and unimaginative in his governing, did little to address or avert the growing crisis. [79]

*Transition to perestroika.*-- Brezhnev's successor, Yuri Andropov, put in motion an industrial planning experiment beginning January 1, 1984. Mikhail Gorbachev was instrumental in developing the experiment and retained control of economic policy through the brief Chernenko period. Andropov's plan called for increased discipline, stronger linkage of bonuses to performance, and aligning supply with demand. It was less a new approach to economic reform than a series of new tactics for pursuing previous, unsuccessful attempts. Andropov welcomed debate, which continued under Chernenko and has reached new heights under Gorbachev. [80]

The main weakness of Andropov's experiment was that it sought to make the system more sensitive to quality and technology by issuing more targets, rather than relying on market mechanisms. Once he assumed the position of General Secretary, Gorbachev set in motion a process of sustained radicalization--termed *perestroika*--which continues with varying degrees of success.

Though sharp disagreements remain over the precise extent and pace of the reforms, and the outlook for the reforms is far from clear, the main goals of *perestroika* as it had developed through 1989 are as follows: [81]

- **General decentralization:** The principle has been established that mandatory output plans should be abolished altogether for light industry and agriculture, and should be used only selectively in heavy industry.

[78] EIU Country Profiles 1989-90, p. 4.

[79] Ibid., p. 4-5.

[80] See Hewett, Reforming the Soviet Economy, pp. 257-275.

[81] Taken from EIU Country Profile 1989-90, pp. 15-16.

- **Self-financing:** Enterprises and even republics should pay their own way, and should be allowed to retain all profits, subject to a stable system of rental payments and profits taxation.

- **Wholesale trade:** There is to be a gradual transition, in the period up to 1992, to over-the-counter trading for a substantial proportion of industrial supplies.

- **Prices:** There is to be a comprehensive price reform, with the goal of producing a reliable set of signals for a more decentralized system.

- **Incentives and flexible manning procedures:** Workers should be paid strictly for what they do; considerations of social justice may demand more rather than less inequality; over-manning must be eliminated.

- **Selective privatization:** Under the rubric of new legislation on cooperatives and lease-holding, independent service and ancillary enterprises and family farms are to be allowed to play a major role in the reconstructed system.

- **Foreign trade reform:** All Soviet enterprises may now, in principle, engage in foreign trade; there is talk of setting up Chinese-style Special Economic Zones, and even ultimately of a fully-convertible ruble.

- **Reform of the banking system:** The strategy is to develop an active banking system which would play a major role in allocating resources.

Gorbachev's program is ambitious and will require sacrifice from the Soviet citizenry in order to be successful. Few difficult measures have actually been taken to date. It is important, however, to note that debate on economic reforms has moved out of academic circles and into the public policy arena. For a more thorough discussion of the direction of *perestroika*, see Chapter 2. [82]

[82] See also Friedemann Muller, "Economic Reform in the Soviet Union," in Economic Reform in Three Giants (New Brunswick: Transaction Books, 1990).



1-38

## SOVIET ECONOMIC PERFORMANCE IN THE 1980s

### Assumptions

Certain precautions must be taken into account when evaluating Soviet economic performance. Reliability of data, the role of prices, and the definition of national accounts are factors that make interpretation of Soviet economic performance data difficult and require Western analysts to reconstruct reported data carefully. These three factors are discussed briefly below.

*Reliability of data.*-- Official Soviet statistics are known to be less reliable than Western official economic statistics. They are generally poorly documented and many of the data sets have limited validity as indicators of the underlying situations to which they refer. [83] Several concerns can be identified: [84]

1) Soviet planners have historically stressed the pace of economic growth, particularly gross volume indicators. Such an emphasis has distorted planning and forestalled balanced development.

2) Stressing the pace of growth has led, not surprisingly, to inflated long-term output series which prevent the real situation from emerging.

3) Distorted long-term time series based on the pace of growth of domestic output have led to unrealistic or contradictory estimates of the comparative net material product (NMP) and gross national product (GNP) levels of the Soviet Union, especially when compared with the United States. On the basis of officially reported NMP [85] growth rates of the Soviet Union and GNP growth in the United States, the Soviet Union should have overtaken the NMP level of the United States by now.

4) While doubts regarding Soviet economic statistics have existed for some time, it was assumed that the degree of distortion had remained largely unchanged. Therefore, it was assumed that relative relationships could be trusted, even though absolute numbers could not. Recently, however, this assumption has been questioned in view of statistical reporting in recent years that shows higher growth of NMP at constant (rather than current) levels, implying an absolute decline in the relevant price deflator.

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[83] Hewett, Reforming the Soviet Economy, p. 36.

[84] Summary taken from Economic Survey of Europe in 1988-89, Economic Commission for Europe, United Nations, pp. 120-22.

[85] The output of products of services in the Soviet Union is measured by NMP, which is roughly equivalent to the Western concept of national income. Since 1987, the Soviets have also reported estimates of their country's annual GNP--an international standard for measuring economic performance. Both these measures, along with their component parts, contain an unknown degree of inflation; therefore, they overstate growth in real terms. Soviet authorities, themselves dissatisfied with the quality of official statistics, reorganized the upper stratum of the country's statistical apparatus in mid-1988. 57th Quarterly Report. . ., p. 22.

While it is accepted that Soviet statistics are upwardly biased and hence somewhat unreliable, it is unclear whether this situation is the result of deliberate falsification. A more probable explanation is the persistent application of unreliable or inaccurate methodology. [86] It appears that the current Soviet leadership is aware of the shortcomings of its statistical reporting and recognizes the value of a realistic assessment of the economic situation. There is evidence, however, that when the Soviet leadership does not like a number it ceases to publish the statistic. [87]

*Prices.*-- The major source of distortion in Soviet real output statistics has been the failure to reflect price changes adequately in the calculation of real output growth. The calculation for consumer goods considers only the officially sanctioned prices and changes in the price listings. [88] Official prices are meaningless and do not reflect relative scarcities. The implication is that any changes in prices not subject to state control--such as those in the cooperative sector and private *kolkhoz* markets--are simply ignored. [89] Of course, the existence of a black market for many consumer goods distorts official price statistics even further. The Soviet leadership has now conceded that a certain degree of inflation does exist and is not accurately reflected in official statistics. [90]

*National accounts.*-- Soviet official statistics are generally reported in terms of NMP. NMP approximates the Western measure of GNP less depreciation and the output of most services--similar to the concept of total final domestic expenditure, but with replacement expenditure and most spending on services omitted. [91] In the 1987 plan fulfillment report the state statistical committee gave, for the first time, a gross domestic product (GDP)-type indicator calculated using United Nations (UN) methodology. [92]

**Trends in economic output and performance during the 1980s**

This section presents a general overview of Soviet economic performance during the 1980s. It is intended to provide a basic understanding of trends in Soviet economic growth and production, comparing, where possible, Soviet performance with that of the United States and other industrialized countries.

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[86] Economic Survey of Europe, p. 122.

[87] Hewett, Reforming the Soviet Economy, p. 8.

[88] Economic Survey of Europe, p. 121.

[89] Ibid.

[90] Ibid., p. 121, notes 199, 202, 203.

[91] Spending on transportation and distribution of products is included. EIU Country Profile 1989-90, p. 17.

[92] Ibid.

*Gross national product (GNP)* [93].-- The value of Soviet GNP for 1988 is presented in **Figure 1-20**. The Soviet economy ranked second in terms of gross national product (valued in U.S. dollars) compared with all other countries in 1988. Soviet GNP was valued at $2,540 billion dollars in 1988 --approximately 52 percent of U.S. GNP and 44 percent greater than the GNP of Japan. [94] A comparison of U.S. and Soviet GNP for selected years from 1960-88 is presented in **Table 1-1 and Figure 1-21**. Throughout the 1980s, Soviet GNP averaged 54 percent of the U.S. output.

Soviet GNP growth is presented in **Table 1-2 and Figure 1-22**. Annual GNP growth averaged 4.9 percent during the 1960s, 2.6 percent during the 1970s, 1.9 percent during the first half of the 1980s, and 2.3 percent during 1986-88. Soviet GNP growth outpaced U.S. growth in 1980, 1982, and 1986.

Soviet GNP growth by sector is presented in **Figure 1-23**. The Soviet agricultural sector showed the greatest volatility during the 1980s, showing negative growth in 1980, 1984, 1985, 1987, and 1988. With agriculture factored out, aggregate GNP figures for the 1980s would have been higher.

The share of contribution to GNP by sector of origin is presented in **Figure 1-24**. In 1988, the industrial sector accounted for 34 percent of GNP, services 19 percent, agriculture 18 percent, transportation 10 percent, construction 8 percent, trade 7 percent, and communications 1 percent. Since 1960, the Soviet economy has undergone a substantial shift in sectoral contribution to GNP. This shift is evident in the contribution factor of the agricultural and industrial sectors. The agricultural sector, which accounted for 34 percent of GNP in 1960, dropped to only 18 percent in 1988, while the industrial sector's share grew from 26 percent in 1960 to 34 percent in 1988.

Per capita GNP and per capita consumption for the Soviet Union and selected countries in 1985 are presented in **Figure 1-25**. Based on an index with the United States equaling 100, Soviet per capita GNP was approximately 45 percent of the United States, and Soviet per capita consumption was approximately 32 percent of the United States. Soviet per capita GNP in 1988 was $8,850. [95]

*World rank in output of the production of major industrial products* [96].-- A comparison of the world ranking of the United States and the U.S.S.R., according to output of major industrial products

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[93] For a detailed analysis of Soviet GNP through 1986, see Laurie Kurtzweg's article titled "Trends in Soviet Gross National Product," in Gorbachev's Economic Plans, Vol. 1, Joint Economic Committee, Congress, November 23, 1987, pp. 126-165.

[94] GNP data in this section are compiled from Central Intelligence Agency (CIA) estimates. All GNP estimates are based on ruble values expressed in 1982 factor cost prices. For a detailed explanation of the procedure used for calculating values of Soviet GNP in U.S. dollars, see Handbook of Economic Statistics, 1989, CIA, p. 31.

[95] CIA Handbook of Economic Statistics, 1989, p. 25.

[96] This section was compiled from data presented in A Comparison of the U.S. and Soviet Industrial Bases, CIA, May 1989.

**Table 1-1**
U.S. and U.S.S.R.: Estimated real gross national product (in billion 1988 U.S. dollars), 1984-88

| | *1984* | *1985* | *1986* | *1987* | *1988* |
|---|---|---|---|---|---|
| United States | 4,260 | 4,404 | 4,528 | 4,682 | 4,864 |
| U.S.S.R.[1] | 2,348 | 2,369 | 2,450 | 2,492 | 2,535 |

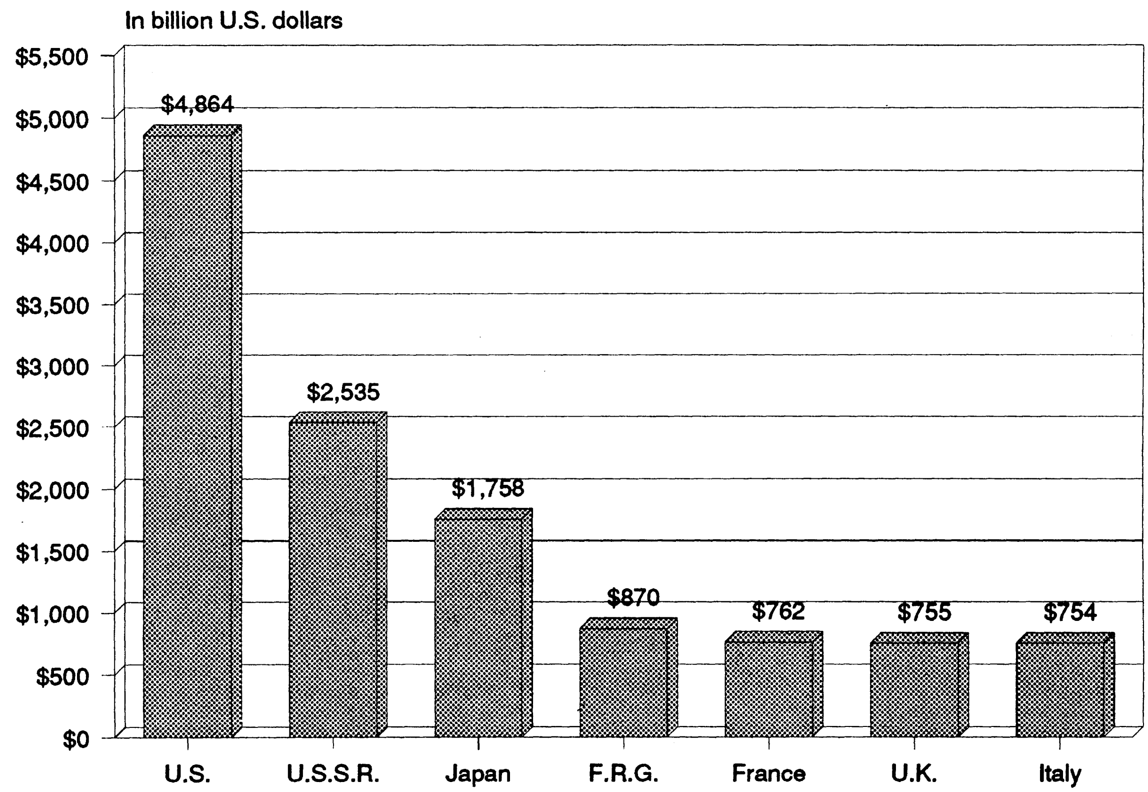
[1] The procedure used for calculating values of Soviet GNP in U.S. dollars is as follows:
- U.S. GNP estimates in 1982 dollars are multiplied by the geometric mean.
- The resulting estimates of Soviet GNP in 1982 U.S. dollars is converted to the current price base using the U.S. GNP implicit price deflator.

For a discussion of this procedure, see *"U.S. and U.S.S.R.: Comparisons of GNP," Soviet Economy in a Time of Change,* Joint Economic Committee, Congress of the United States, 10 October 1979, pp. 369-401.

*Source: CIA Handbook of Economic Statistics, 1989.*

**Figure 1-20**

The gross national product (GNP) of the seven largest economies, 1988




Source: Compiled from data in the CIA Handbook, 1989.

**Table 1-2**
U.S.S.R.: Annual rate of growth of real GNP compared with the United States, the European Community, Japan, and the OECD average, (in percent), 1984-88

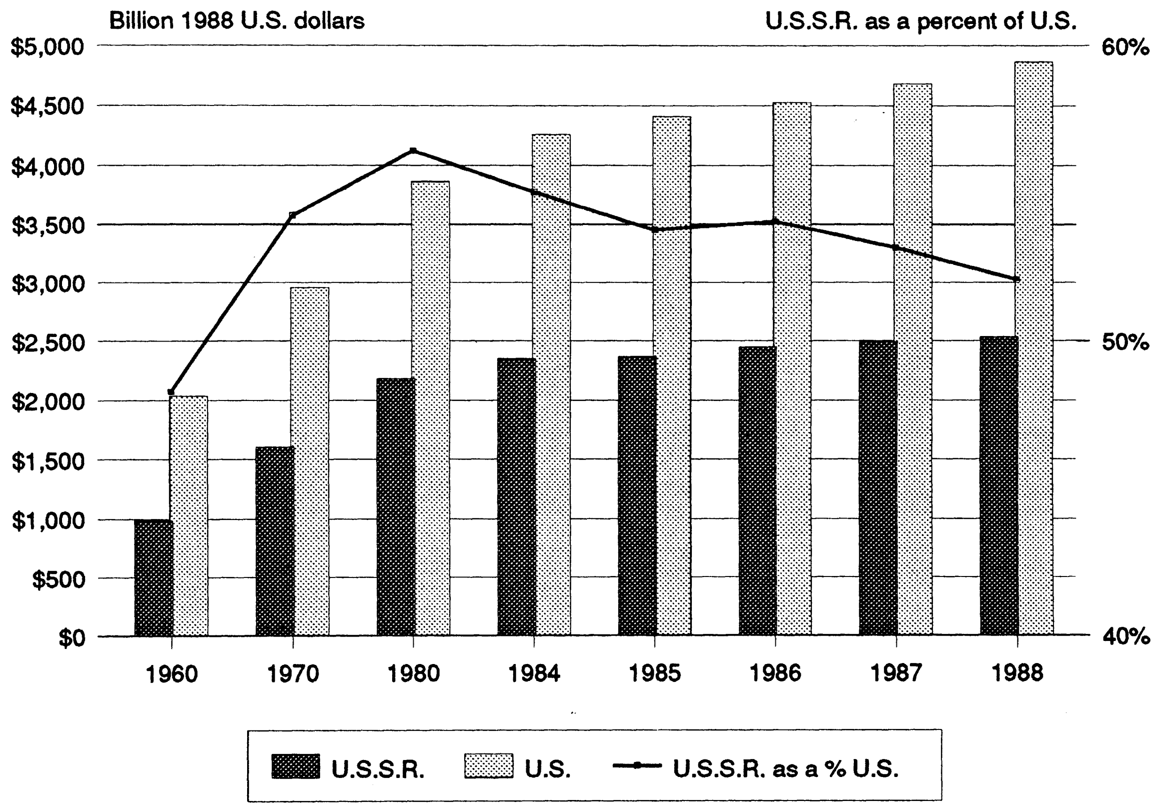
| | *1984* | *1985* | *1986* | *1987* | *1988* |
|---|---|---|---|---|---|
| U.S.S.R. [1] | 1.5 | 0.8 | 4.0 | 1.3 | 1.5 |
| United States | 7.2 | 3.4 | 2.7 | 3.7 | 4.4 |
| European Community | 2.3 | 2.4 | 2.5 | 2.6 | 3.7 |
| Japan | 5.0 | 4.8 | 2.5 | 4.4 | 5.8 |
| OECD Average [2] | 4.7 | 3.4 | 2.7 | 3.3 | 4.1 |

[1] At factor cost.
[2] GDP growth for the OECD countries.

*Source: CIA Handbook of Economic Statistics, 1989.*

**Figure 1-21**

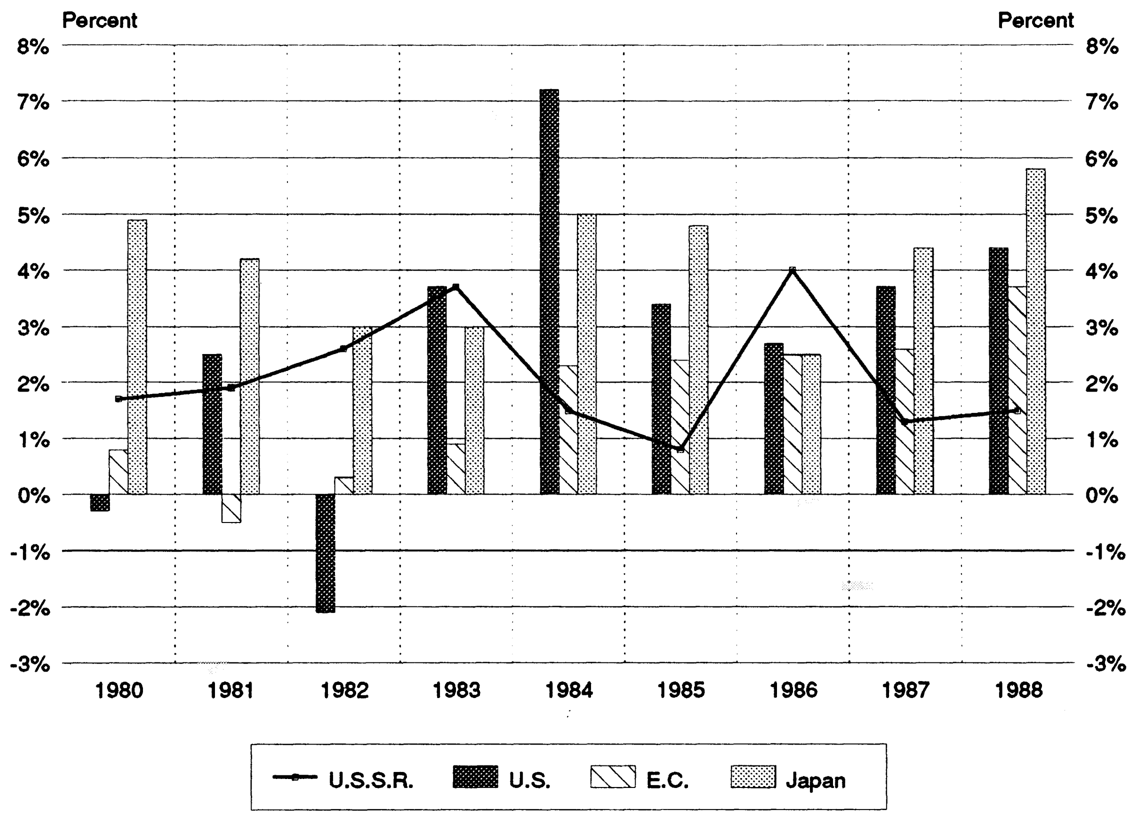
U.S. and U.S.S.R.: A comparison of estimated real GNP, for selected years, 1960-88




Source: Compiled from data in the CIA Handbook, 1989.

**Figure 1-22**

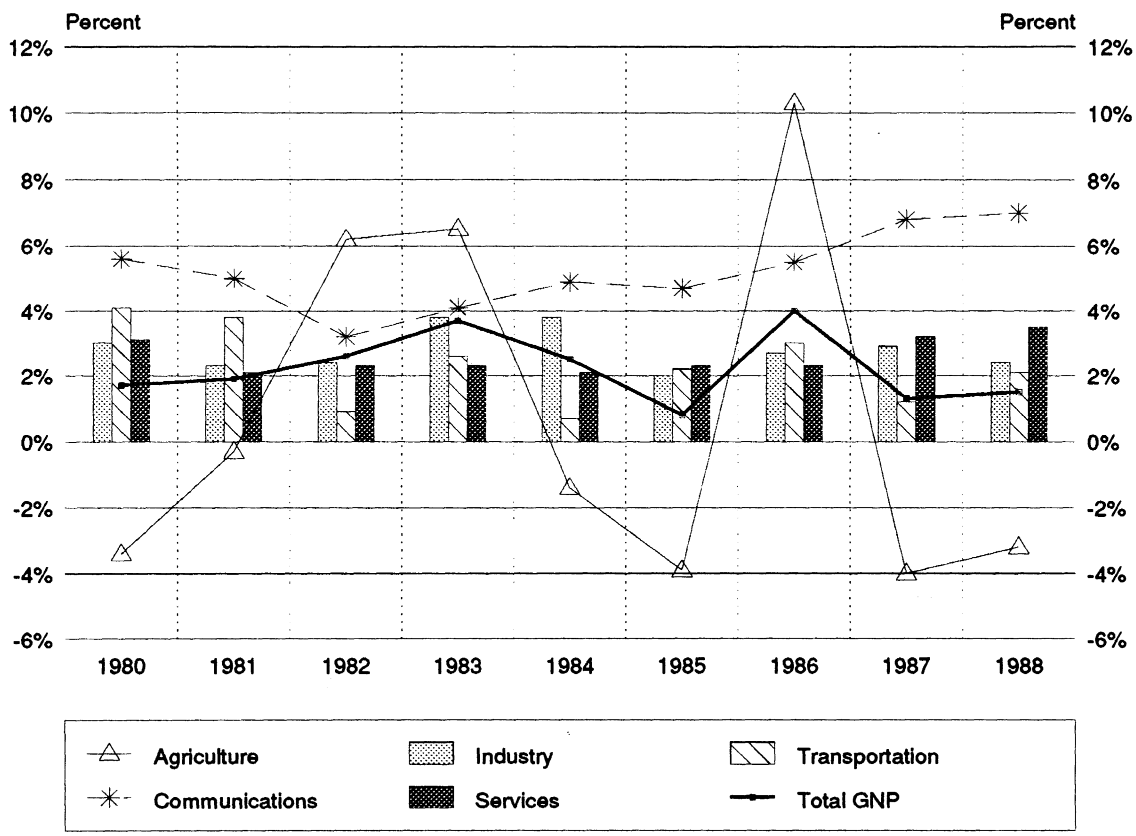
The annual rate of growth of real GNP of the U.S.S.R. compared with the U.S., E.C., and Japan, 1980-88




Source: Compiled form data in the CIA Handbook, 1989.

**Figure 1-23**

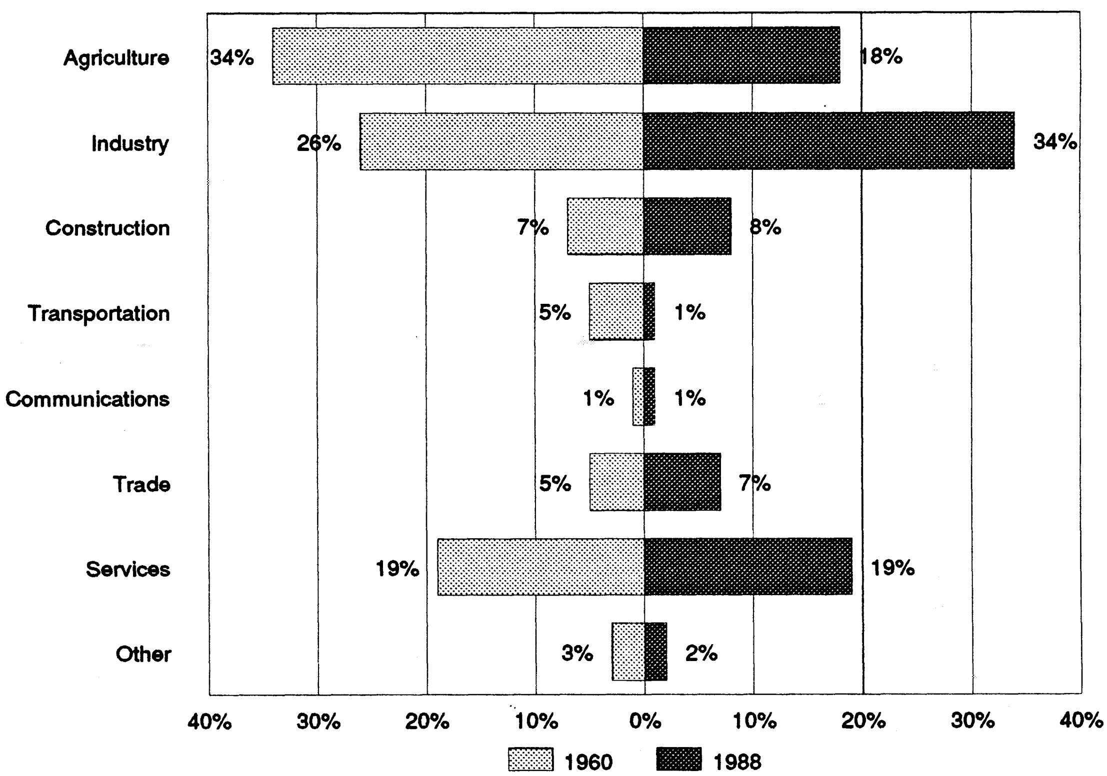
U.S.S.R.: The growth of GNP, by sector of origin, 1980-88




Source: Compiled from data in the CIA Handbook, 1985 & 1989.

**Figure 1-24**

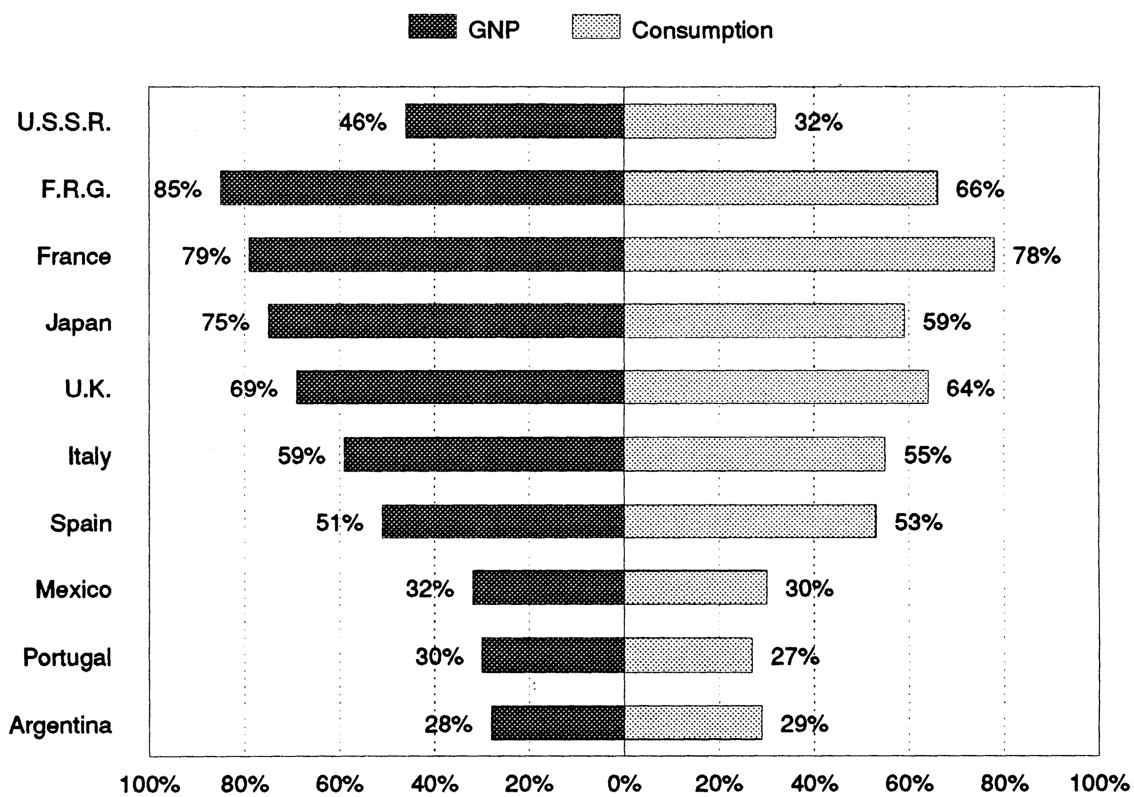
U.S.S.R.: Share of contribution to GNP, by sector of origin, 1960 and 1988




Source: Compiled from data in the CIA Handbook, 1989.

**Figure 1-25**

Per capita GNP and consumption for the U.S.S.R. and selected countries, as a percent of the United States, 1985




Source: Compiled from data in the CIA Handbook, 1989.

for the years 1970 and 1986, is presented in **Table 1-3**. In 1986, the Soviet Union ranked first in the world in the production of oil, natural gas, iron ore, steel, tractors, mineral fertilizers, synthetic rubber, lumber, and granular sugar. The Soviet Union dropped in ranking from 1970 to 1986 in the production of coal, metal-cutting machine tools, television sets, paper, cement, and meat. The United States ranked higher than the Soviet Union in 1986 in the production of electricity, coal, aluminum, automobiles, television sets, plastics, sulfuric acid, chemical fibers, paper, and meat.

A comparison of industrial production performance in the United States and the U.S.S.R. for the years 1970 and 1986 is presented in **Table 1-4**. The U.S.S.R. showed the greatest average annual rate of growth from 1970 to 1986 in the production of automobiles, natural gas, plastics, mineral fertilizers, chemical fibers, sulfuric acid, and electricity. The only major product for which the U.S.S.R. showed negative production growth was lumber.

*Industrial production.--* Growth of Soviet industrial production, compared with the United States, West Germany, and Japan, is presented in **Figure 1-26**. Soviet industrial production increased at a pace comparable to other industrialized countries since 1960. Soviet industrial output was 19 percent greater in 1988 than in 1980. U.S. industrial output was 27 percent greater over the same period. [97]

*Distribution of industrial investment.--* Distribution of industrial investment in the U.S.S.R., compared with that of the United States, is presented in **Figure 1-27**. Soviet and U.S. investment levels in the fuel and machine building sectors were comparable.

*Agricultural production.--* Growth in Soviet agricultural production, compared with that of the United States, Canada, and Eastern Europe, is presented in **Figure 1-28 and Table 1-5**. Soviet agricultural output was 15 percent greater in 1988 than in 1980. U.S. agricultural output was 7 percent lower in 1988 than in 1980. [98]

Unlike output growth in the United States and Canada, where output gains were a result of higher yield seeds, Soviet growth stemmed from the extension of growing areas, and more intensive use of fertilizer. The Soviet Union has increased the amount of chemical fertilizers applied per hectare tenfold between 1960 and 1987. [99]

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[97] CIA Handbook of Economic Statistics, 1989, p. 36.

[98] Ibid., p. 35.

[99] Ibid., p. 75.

**Table 1-3**
United States and U.S.S.R.: World rank in output of major industrial products, 1970 and 1986 [1]

| | United States | | U.S.S.R. | |
|---|---|---|---|---|
| | 1970 | 1986 | 1970 | 1986 |
| Electricity | 1 | 1 | 2 | 2 |
| Oil | 1 | 2 | 2 | 1 |
| Natural gas | 1 | 2 | 2 | 1 |
| Coal | 2 | 1 | 1 | 3 |
| Iron ore | 2 | 6 | 1 | 1 |
| Steel | 1 | 3 | 2 | 1 |
| Aluminum | 1 | 1 | 2 | 2 |
| Gold | 4 | 3 | 2 | 2 |
| Metal-cutting machine tools | 3 | 6 | 1 | 2 |
| Tractors | 2 | 6 | 1 | 1 |
| Automobiles | 1 | 2 | 9 | 6 |
| Television sets | 2 | 3 | 3 | 4 |
| Mineral fertilizers | 1 | 2 | 2 | 1 |
| Plastics | 1 | 1 | 4 | 4 |
| Sulfuric acid | 1 | 1 | 2 | 2 |
| Chemical fibers | 1 | 1 | 3 | 3 |
| Synthetic rubber | 1 | 2 | 2 | 1 |
| Lumber | 2 | 2 | 1 | 1 |
| Paper | 1 | 1 | 3 | 4 |
| Cement | 2 | 3 | 1 | 2 |
| Meat | 1 | 1 | 2 | 3 |
| Granular sugar | 3 | 5 | 1 | 1 |

[1] Rankings are based on volume of output.

*Source:* A Comparison of the U.S. and Soviet Industrial Bases, *Central Intelligence Agency, May 1989.*

Table 1-4
United States and U.S.S.R.: Production of major industrial products, 1970 and 1986

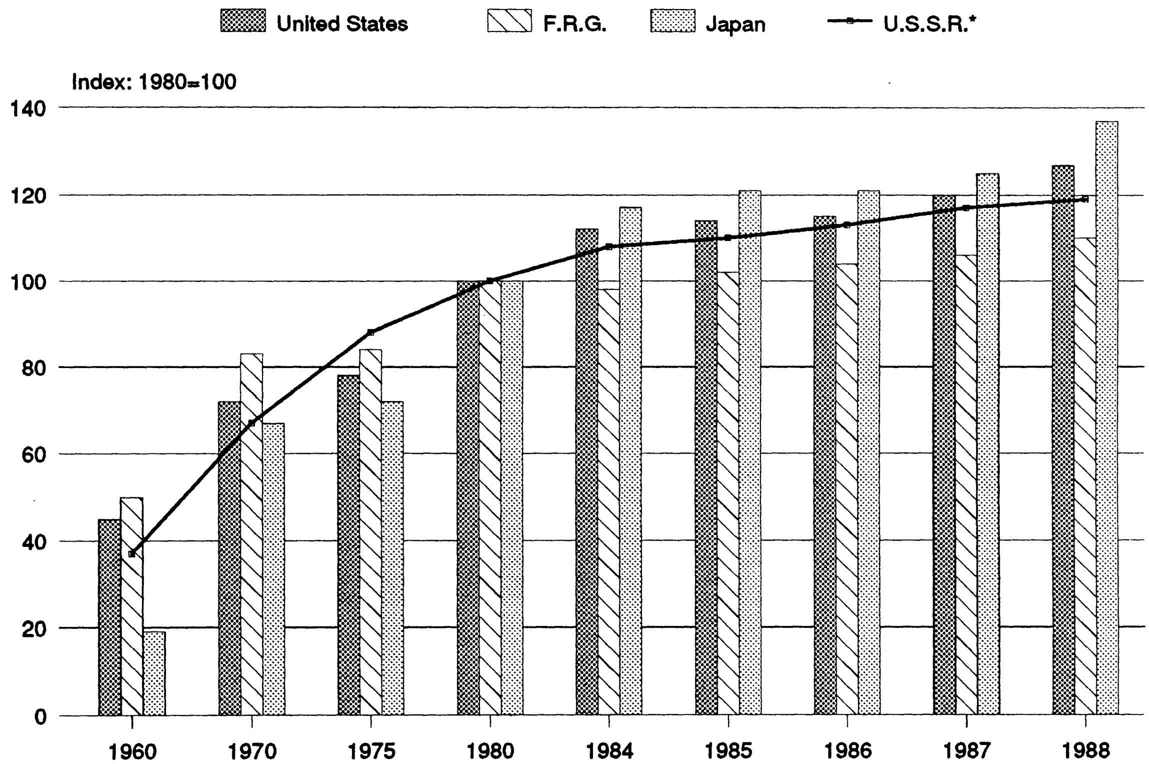
| *Item* | *1970* | | *1986* | | *Average annual rate of growth, 1971-86 (percent)* | |
|---|---|---|---|---|---|---|
| | *U.S.S.R.* | *U.S.* | *U.S.S.R.* | *U.S.* | *U.S.S.R.* | *U.S.* |
| Electricity *(billion gross kilowatt-hours)* | 741 | 1,743 | 1,599 | 2,653 | 4.9 | 2.7 |
| Oil *(million barrels per day)* | 7.06 | 11.31 | 12.30 | 10.29 | 3.5 | -0.6 |
| Natural gas *(billion cubic meters)* | 198 | 621 | 639 | 476 | 7.6 | -1.6 |
| Coal *(million metric tons)* | 577 | 556 | 675 | 808 | 1.0 | 2.4 |
| Iron ore *(million metric tons)* | 197 | 91 | 250 | 39 | 1.5 | -5.2 |
| Crude steel *(million metric tons)* | 116 | 119 | 161 | 74 | 2.1 | -2.9 |
| Aluminum *(thousand metric tons)* | 1,640 | 3,607 | 2,970 | 3,036 | 3.8 | -1.1 |
| Automobiles *(thousands)* | 344 | 6,550 | 1,326 | 7,829 | 8.8 | 1.1 |
| Electric generators *(million kilowatts)* | 10.6 | 27.6 | 14.9 | 2.3 | 2.2 | -14.4 |
| Television sets *(millions)* | 6.7 | NA | 9.4 | 15.0 | 2.2 | NA |
| Tractors *(thousands)* | 459 | 224 | 595 | 93 | 1.6 | -5.3 |
| Mineral fertilizers *(million metric tons)* | 13.1 | 14.9 | 34.7 | 20.7 | 6.3 | 2.1 |
| Caustic soda *(million metric tons)* | 1.8 | 9.2 | 3.2 | 9.7 | 3.8 | 0.3 |
| Sulfuric acid *(million metric tons)* | 12.1 | 26.8 | 27.8 | 33.4 | 5.4 | 1.4 |
| Chemical fibers *(million metric tons)* | 0.6 | 2.2 | 1.5 | 3.8 | 5.6 | 3.5 |
| Plastics *(million metric tons)* | 1.7 | 9.8 | 5.3 | 19.8 | 7.5 | 4.5 |
| Lumber *(million cubic meters)* | 116.4 | 80.8 | 102.1 | 100.7 | -0.8 | 1.4 |
| Paper *(million metric tons)* | 4.2 | 21.4 | 6.2 | 32.2 | 2.4 | 2.6 |
| Cement *(million metric tons)* | 95.2 | 69.0 | 135.1 | 71.6 | 2.2 | 0.2 |
| Footwear *(million pairs)* | 884 | 562 | 1.057 | 241 | 1.1 | -5.2 |
| Cotton textiles *(billion square meters)* | 6.2 | 5.2 | 7.8 | 3.6 | 1.5 | -2.3 |
| Meat *(million metric tons)* | 7.1 | 16.2 | 11.7 | 17.7 | 3.1 | 0.6 |
| Vegetable oil *(million metric tons)* | 2.8 | 3.8 | 2.9 | 6.3 | 0.2 | 3.2 |
| Beer *(million dekaliters)* | 419 | 1,562 | 489 | 2,306 | 1.0 | 2.5 |

*Source:* A Comparison of the U.S. and Soviet Industrial Bases, *Central Intelligence Agency, May 1989.*

1-52

**Figure 1-26**

U.S.S.R.: Soviet industrial production growth compared with the U.S., F.R.G., and Japan, for selected years, 1960-88

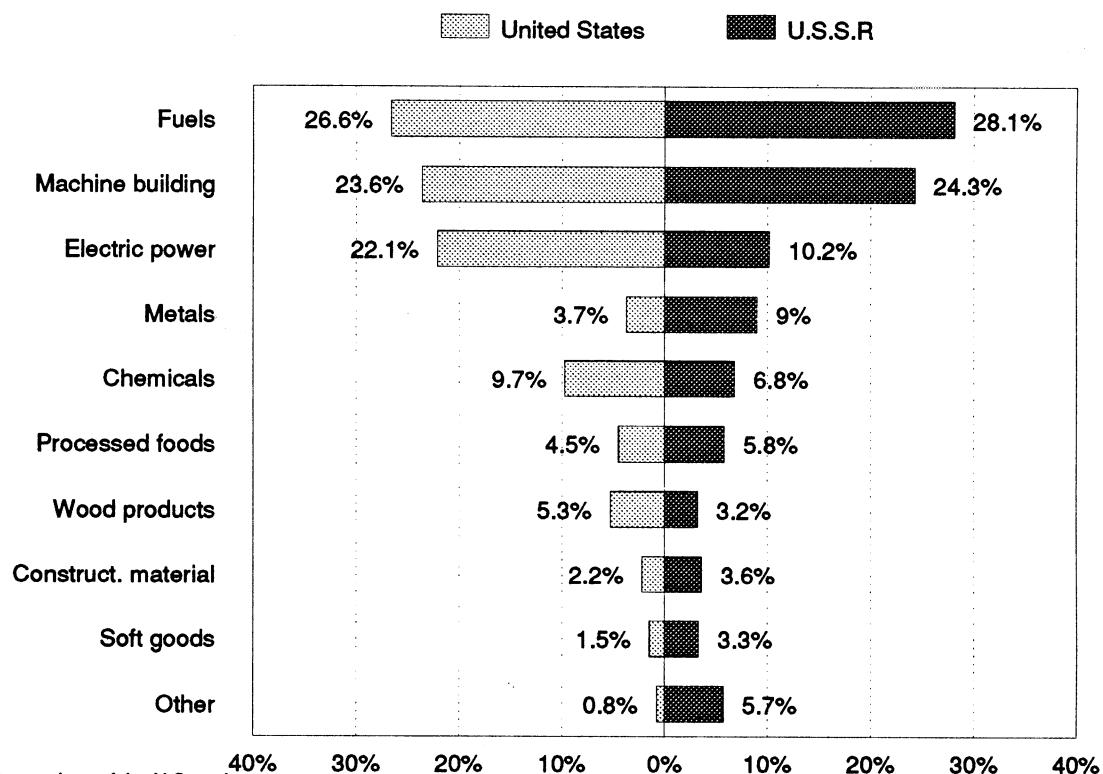



Source: Compiled from data in the CIA Handbook, 1989.

* C.I.A. adjusted value

**Figure 1-27**

U.S.S.R.: Distribution of industrial investment compared with the United States (in percent), 1985



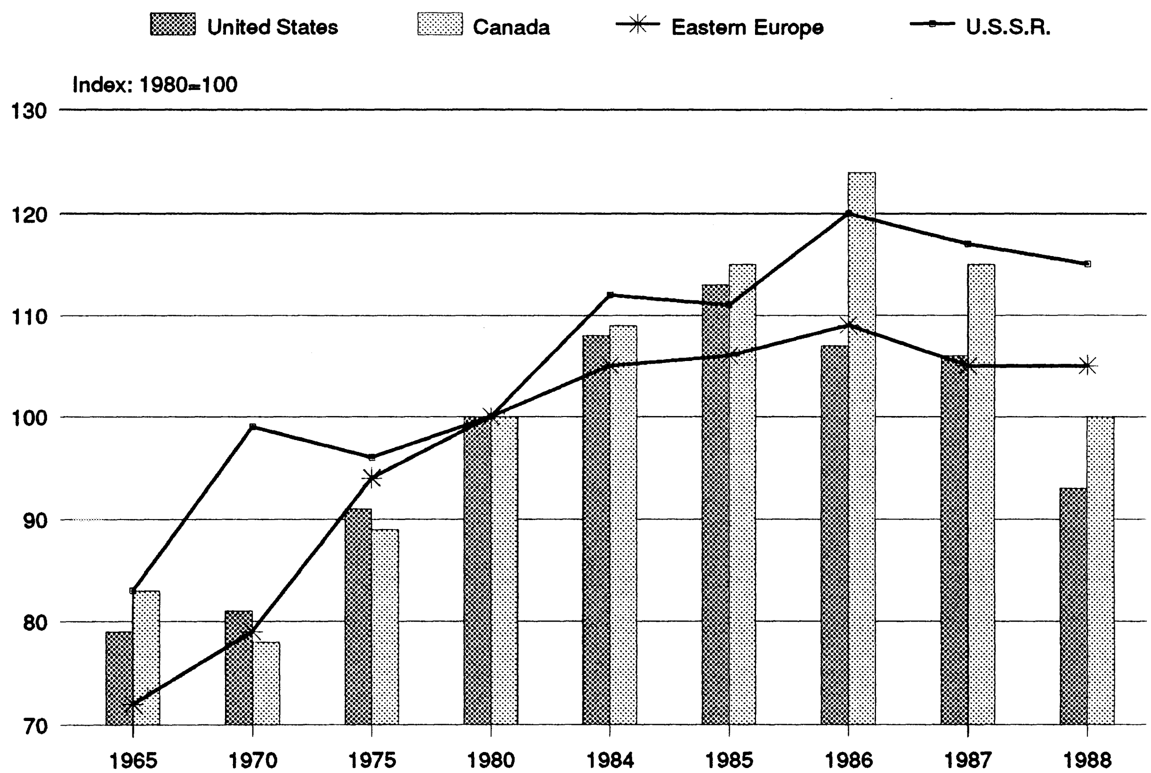

Source: A Comparison of the U.S. and Soviet Industrial Bases, CIA, May 1989



**1-54**

**Figure 1-28**

U.S.S.R.: Agricultural production growth compared with the U.S., Canada, and E. Europe, for selected years




Source: Compiled from data in the CIA Handbook, 1989.

**Table 1-5**
U.S.S.R.: Agriculture production index (base year 1980=100), for selected years, 1960-88

| | *1965* | *1970* | *1975* | *1980* | *1984* | *1985* | *1986* | *1987* | *1988* |
|---|---|---|---|---|---|---|---|---|---|
| U.S.S.R. [1] | 83 | 99 | 96 | 100 | 112 | 111 | 120 | 117 | 115 |
| Eastern Europe [2] | 72 | 79 | 94 | 100 | 105 | 106 | 109 | 105 | 105 |
| United States | 79 | 81 | 91 | 100 | 108 | 113 | 107 | 106 | 93 |
| Canada | 83 | 78 | 89 | 100 | 109 | 115 | 124 | 115 | 100 |

[1] Estimates based on the value of crop production plus the value of livestock output and changes in livestock numbers, but minus feed, seed, and waste. Values have been changed from 1970 average realized prices to 1982 average realized prices.

[2] Estimates based on the value of crop production plus the value of livestock products, with allowance for changes in livestock numbers, but minus feed (including grain imported for feed), seed, and waste.

*Source: CIA Handbook of Economic Statistics, 1989.*

Soviet grain yields compared with the United States, China, Hungary, Poland and Yugoslavia are presented in **Figure 1-29**. Despite continuous Soviet efforts to increase grain yields and productivity, Soviet grain yields have remained virtually flat since 1960. [100] In 1987, U.S. grain yields were 2.5 times greater per hectare than in the Soviet Union. Hungarian grain yield per hectare was 2.7 times greater than in the Soviet Union.

## Economic performance in 1989

Soviet economic performance in 1989 was discouraging. Some experts claim that a recession began in 1989 and will worsen in 1990. [101] Inflation reached record levels, industrial production slowed for the eighth consecutive quarter, the "inflationary overhang" [102] worsened, and the size of the Soviet internal debt reached 43 percent. [103]

**Table 1-6** presents a summary of Soviet official economic statistics for the years 1985-89. The table provides a relative indicator of economic performance in the years shown. However, some 1989 data may be preliminary or insufficiently analyzed, and thus are subject to revision. Accordingly, the data presented in table 1-6 should not be compared directly with data presented elsewhere in this report.

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[100] Low Soviet grain yields may be a reflection of infrastructure problems such as the variability of supplies of high quality seeds, machinery, equipment and spare parts, and motor fuels; storage facilities for harvested crops; fertilizer types; transportation; and low worker incentives.

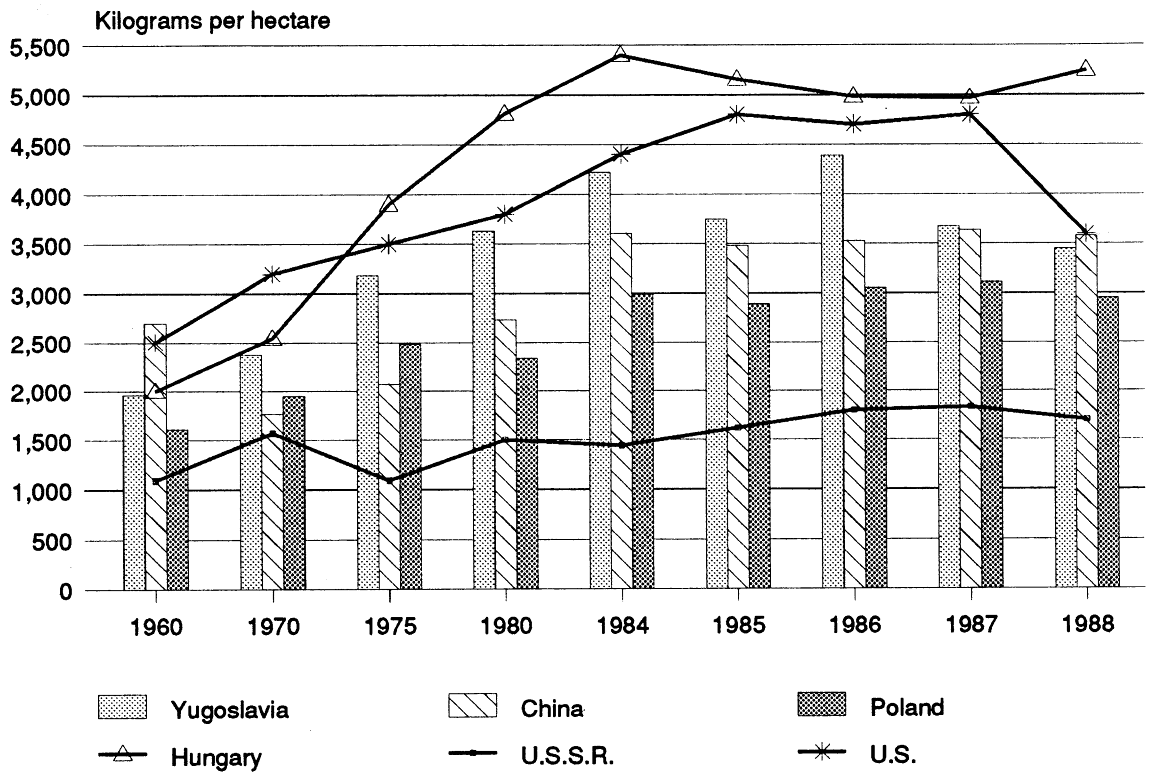
[101] PlanEcon Report, Feb. 21, 1990, p. 1.

[102] The terms "inflationary overhang," "monetary overhang," or "ruble overhang" are used to denote the excess of financial resources available from personal or enterprise accounts relative to the availability of consumer and investment goods.

[103] Ibid.

**Figure 1-29**

U.S.S.R.: Grain yields compared with the U.S. and selected countries, for selected years, 1960-88




Source: Compiled from data in the CIA Handbook, 1989.

Table 1-6
**Summary of official statistics for the Soviet Economy, 1985-89**

| Item | 1985 | 1986 | 1987 | 1988 | 1989 [1] |
|---|---|---|---|---|---|
| | (annual growth in percent unless otherwise specified) | | | | |
| **Aggregate output indicators:** [2] | | | | | |
| Net material product produced | 1.6 | 2.3 | 1.6 | 4.4 | 2.4 |
| Gross national product: | | | | | |
| Official Soviet estimate | 2.3 | 3.3 | 2.9 | 5.5 | 3.0 |
| CIA estimate | 0.8 | 4.0 | 1.3 | 1.5 | -1.0 |
| Gross industrial output: | | | | | |
| Producer goods | 3.5 | 5.0 | 3.7 | 3.4 | 0.7 |
| Consumer goods | 3.0 | 2.6 | 4.1 | 5.4 | 4.8 |
| Total | 3.4 | 4.4 | 3.8 | 3.9 | 1.7 |
| Gross agricultural output: | | | | | |
| Crops | -1.0 | 6.1 | -2.7 | -1.4 | 1.7 |
| Animal products | 1.0 | 4.7 | 1.2 | 4.1 | 0.5 |
| Total | 0.2 | 5.3 | -0.6 | 1.7 | 1.0 |
| Gross investment | 3.0 | 8.4 | 5.6 | 6.2 | 0.6 |
| Capital put into operation | 1.4 | 5.9 | 6.8 | -1.4 | -2.2 |
| Freight transport tonnage [3] | 0.4 | 4.4 | 2.0 | 1.3 | -2.0 |
| **Aggregate fiscal and monetary indicators:** | | | | | |
| Government budget deficit: | | | | | |
| Billions of rubles (R) | R14 | R46 | R52 | R81 | R92 |
| Percent of GDP | 1.8 | 5.8 | 6.3 | 9.3 | 9.9 |
| Government debt: | | | | | |
| Billions of rubles | R133 | R179 | R231 | R312 | R404 |
| Percent of GDP | 17.1 | 22.4 | 28.0 | 35.7 | 43.4 |
| Government expenditure to GDP ratio | 0.50 | 0.52 | 0.52 | 0.53 | 0.53 |
| Savings deposits: | | | | | |
| End of year (billion rubles) | 220.8 | 242.8 | 266.9 | 296.7 | 337.7 |
| Ratio to retail sales | 0.68 | 0.73 | 0.78 | 0.81 | 0.84 |
| Retail price index: | | | | | |
| Official | 1.0 | 1.9 | 1.5 | 0.5 | 2.0 |
| Realistic [4] | 3 to 4 | 4 to 5 | 4 to 5 | 5 to 7 | 7 to 9 |
| Hidden inflation [5] | 1.5 | -0.7 | 1.6 | 4.0 | 4.0 |
| Aggregate inventory change [6] (in billion rubles) | 20 | 6 | -1 | 9 | 12 |
| **Consumption and living standards indicators:** [7] | | | | | |
| Retail trade turnover | -1 to 0 | -3 to -2 | -2 to -1 | 0 to 1 | 1 to 3 |
| Real income per capita | -2 to -1 | -3 to -2 | -3 to -2 | -3 to -1 | -4 to -2 |
| Real wages | -1 to 0 | -2 to -1 | -1 to 0 | 1 to 3 | 0 to 2 |

[1] Data reported from official Soviet 1989 plan fulfillment report as published in Ekonomika i zhizn, No. 6/1990 and PlanEcon estimates based on relevant related statistics.
[2] For an indicator of output of the trade sector -- retail trade turnover -- see the section on consumption and living standards below.
[3] Includes common carriers only.
[4] Based on the assumption that hidden inflation in consumer goods prices averaged 2-3 percent per year during 1979-87, and then accelerated to 5-7 percent during 1988-89.
[5] Assumed (for simplicity) to be the difference between the official Soviet estimate and CIA estimate of Soviet GNP growth rates.
[6] Change in end-year stock of material inventories taken from official Soviet Statistical Yearbooks. This item includes raw material, semi-manufactures, and finished products.
[7] PlanEcon adjusted estimates constructed on the basis of the assumptions stated above, by scaling downward official Soviet estimates.

*Source: Compiled from data in PlanEcon Report, Vol. VI, February 1990, p. 3.*

## SOVIET FOREIGN TRADE

### Orientation of trade

*Direction.*-- **Figure 1-30** shows total Soviet trade turnover and the direction of trade by region. In 1988, Eastern Europe accounted for 51.5 percent of total Soviet trade, the OECD accounted for 23.8 percent of trade, the less developed countries (LDCs) accounted for 10.9 percent of trade, and China for 1.4 percent of trade. [104]

*Commodities.*-- **Figure 1-31** shows the U.S.S.R.'s exports as a share of total world exports in 1987. As a share of total world exports by commodity, the U.S.S.R. exported 28 percent of world petroleum exports, 27 percent of natural gas exports, 34 percent of wood and wood products exports, and 28 percent of chemical exports. Overall, Soviet exports accounted for 27 percent of total world exports. [105]

**Figure 1-32** shows the U.S.S.R.'s imports as a share of total world imports in 1987. As a share of total world imports by commodity, the U.S.S.R. imported 80 percent of world grain imports, 69 percent of rolled ferrous metals imports, 63 percent of chemical imports, and 7 percent of consumer good imports. Overall, Soviet imports accounted for 23 percent of total world imports. [106] The value of Soviet agricultural imports for selected products is presented in **Figure 1-33.** [107]

### Hard currency trade [108]

*Sources of hard currency.*-- The Soviet Union has traditionally earned the vast majority of its hard currency earnings from the sale of primary resources -- in particular oil, natural gas, gold, and selected minerals. In 1987, oil exports accounted for 35 percent of total Soviet hard currency export revenues of $29.1 billion; natural gas exports accounted for 9.4 percent; machinery and equipment exports 7.3 percent; and wood and wood products for 4.1 percent.

*Crude petroleum.*-- Before 1973, Soviet hard currency earnings from energy exports comprised 20 percent of the U.S.S.R.'s total yearly commodity export earnings. By 1977, the share of hard currency earned from oil and gas sales to the West had grown to more than 50 percent. [109] Oil is by far the U.S.S.R.'s most important source of hard currency revenues. In 1988, 31 percent of

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[104] CIA Handbook of Economic Statistics, 1989, p. 159.

[105] Ibid., p. 162.

[106] Ibid.

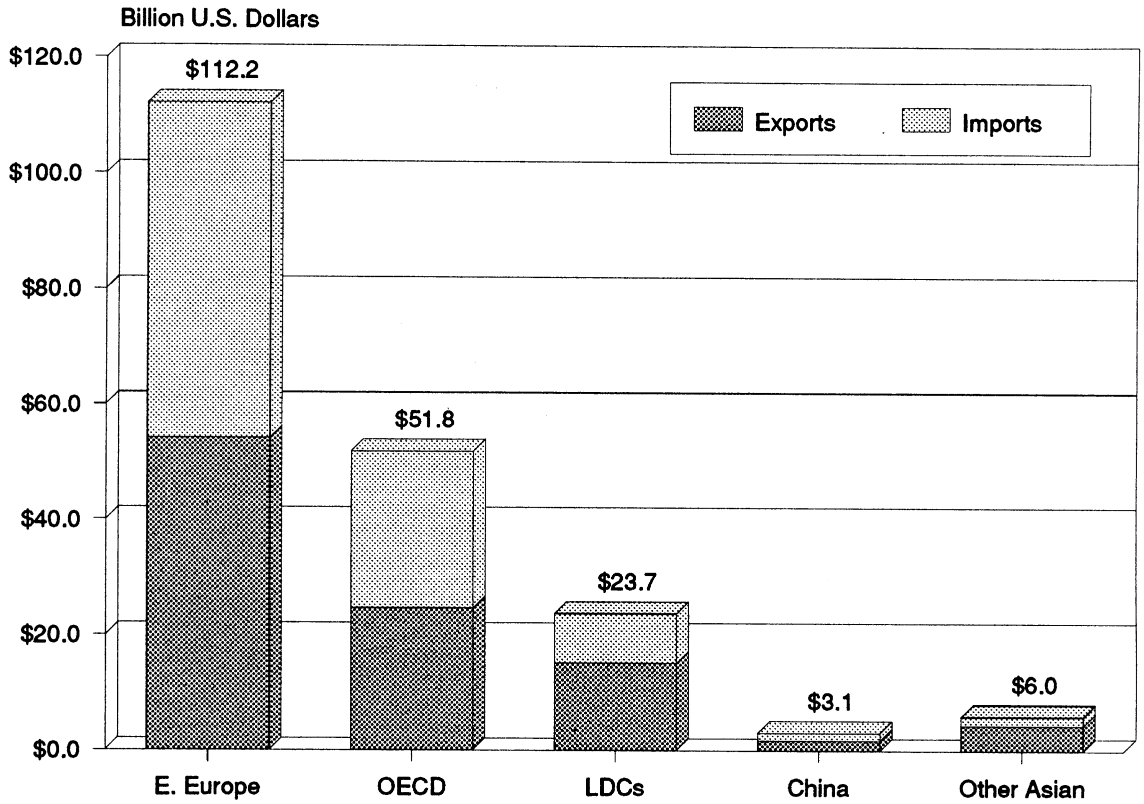
[107] Compiled from statistics of the USDA, Economic Research Service.

[108] Hard currency trade is trade for U.S. dollars or other convertible currency. This form of trade is distinguished from soft currency trade (trade for rubles or other non-convertible currency), or countertrade.

[109] U.S.S.R. Energy Atlas, CIA, 1985, p. 8.

**Figure 1-30**

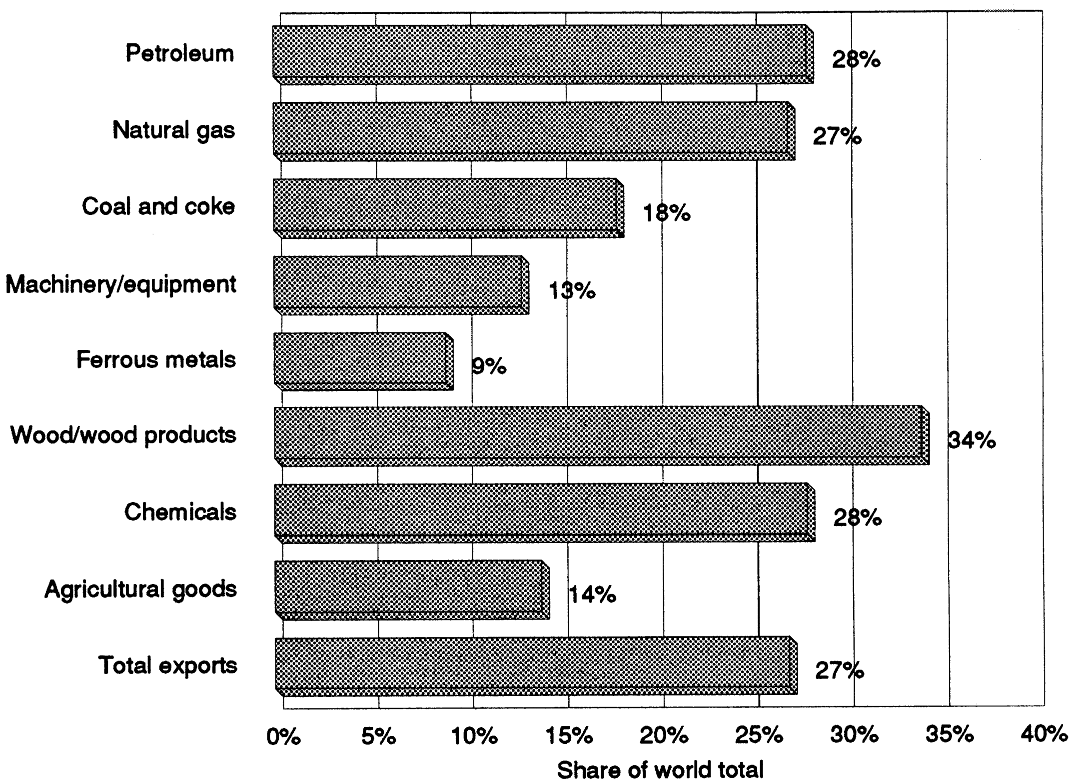
U.S.S.R.: Total trade turnover and direction of trade, by region, 1988




Source: Compiled from data in the CIA Handbook, 1989.

**Figure 1-31**

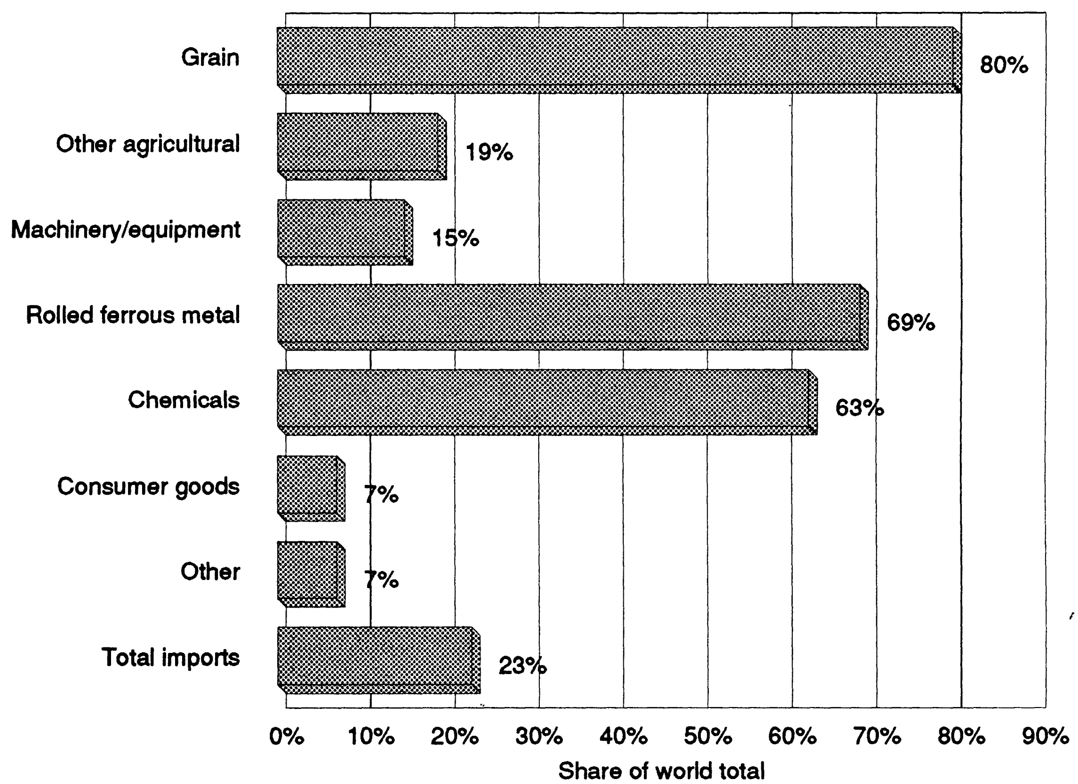
U.S.S.R.: Exports as a share of total world exports, by commodity category, 1987




Source: Compiled from data in the CIA Handbook, 1989.

**Figure 1-32**

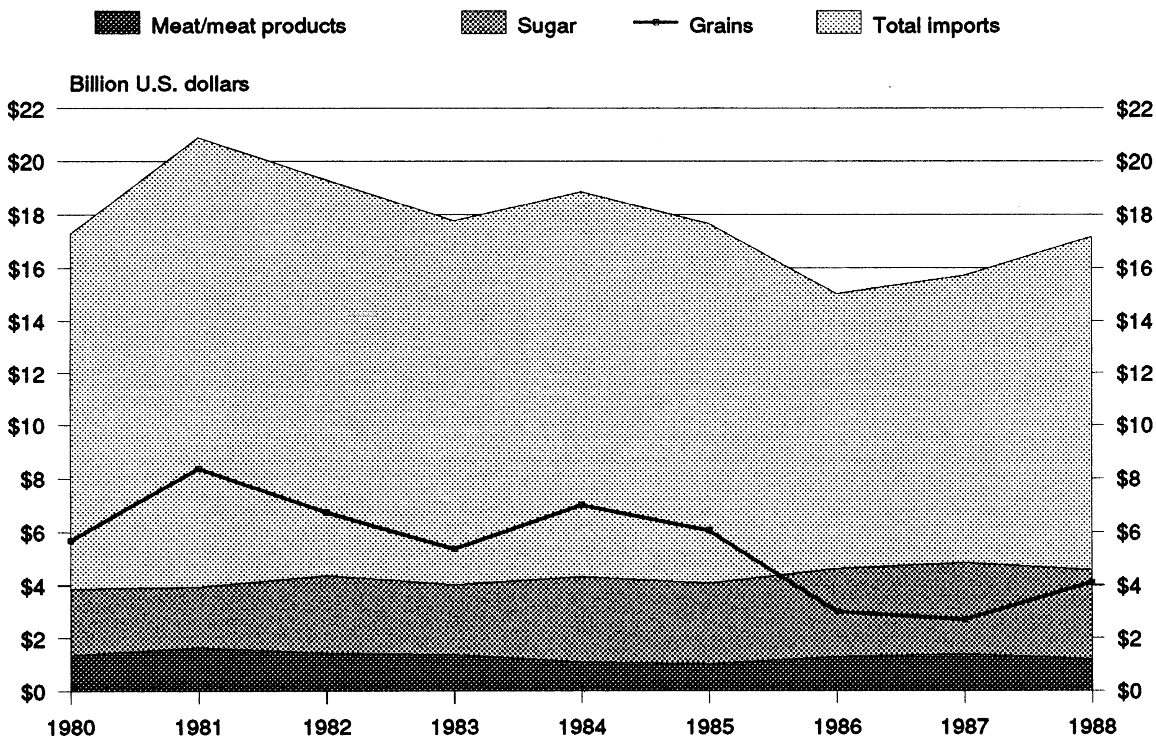
U.S.S.R.: Imports as a share of total world imports, by commodity category, 1987




Source: Compiled from data in the CIA Handbook, 1989.

**Figure 1-33**

U.S.S.R.: The value of selected agricultural imports, for calendar years 1980-88




Source: Compiled from statistics of the USDA, Economic Research Service.

the U.S.S.R.'s $107.3 billion of imports was financed from the sale of oil. [110] **Table 1-7 and Figure 1-34** show Soviet crude oil production, oil exports, and oil export revenues from 1980-88. [111]

*Natural gas.*-- The sale of natural gas for hard currency has been growing. In 1975, natural gas provided only 3 percent of hard currency earnings. By 1982, natural gas earnings had risen to almost 14 percent of total hard currency earnings. The Soviet Union anticipates even greater increases in revenues from natural gas deliveries to Europe from the recently opened Siberia-to-West Europe pipeline.

*Gold.*-- **Figure 1-35** shows the Soviet Union's production of gold, gold reserves, and hard currency sales. The U.S.S.R.'s gold reserves were 74.56 million troy ounces in 1987, with gold production of 10.98 million troy ounces in 1988. Hard currency gold sales, which were $200 million in 1960, $0 in 1970, $1.58 billion in 1980, rose considerably during the 1980s to $3.8 billion in 1988. [112]

*Hard currency balance of payments.*-- **Figure 1-36** shows Soviet and East European hard currency debt per capita. At the end of 1988, Soviet gross hard currency debt per capita was $170. Compared to other CMEA countries, the U.S.S.R. ranked seventh in debt per capita. The U.S.S.R.'s debt per capita was only one-tenth that of Hungary, and one-fifth that of Poland. Only Romania had a lesser per capita debt. [113]

**Table 1-8 and Figure 1-37** show Soviet hard currency balance of payments. The Soviet trade balance was $2.65 billion in 1988, following a $6.16 billion balance in 1987; the hard currency current account balance [114] at the end of 1988 was $1.27 billion, while the capital account balance [115] was $1.89 billion. [116]

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[110] Hypothetically, the U.S.S.R. could have financed its entire hard currency imports in 1988 ($28.5 billion) through the sale of oil to the West.

[111] CIA Handbook of Economic Statistics, 1985, pp. 92, 132, 134. and CIA Handbook of Economic Statistics, 1989, pp. 96-98.

[112] CIA Handbook of Economic Statistics, 1985, pp. 72-73, and CIA Handbook of Economic Statistics, 1989, pp. 69-70.

[113] PlanEcon Trade and Finance Reviews, July 1989.

[114] Current account balance is defined here as trade balance, plus net interest, plus other invisibles such as net receipts from tourism, transportation, and official transfers.

[115] Capital account balance is defined here as current account plus changes in gross debt, changes in assets, estimated exchange rate effect on debt and assets, net credits to LDCs, and gold sales.

[116] CIA Handbook of Economic Statistics, 1985, p. 72, and CIA Handbook of Economic Statistics, 1989, p. 69.



1-65

**Table 1-7**
U.S.S.R.: Crude oil production, oil exports, and oil export earnings, 1984-88

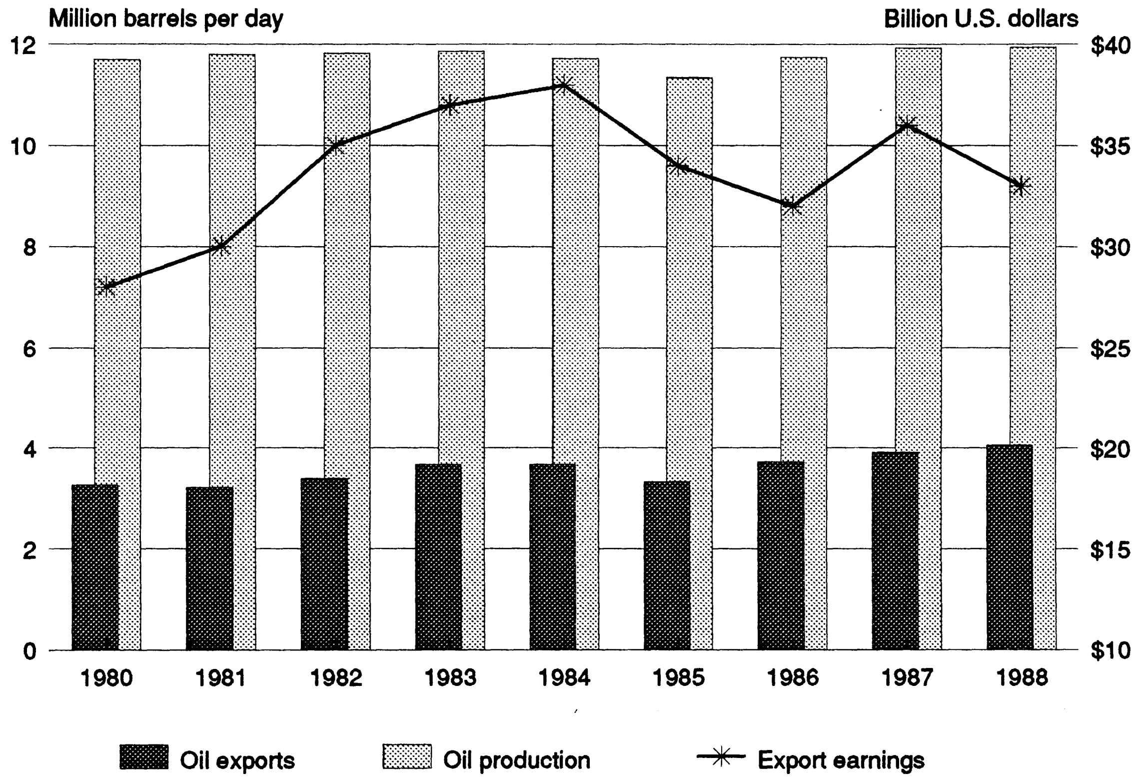
| | *1984* | *1985* | *1986* | *1987* | *1988* |
|---|---|---|---|---|---|
| Crude oil production [1] *(million barrels per day)* | 11.73 | 11.35 | 11.75 | 11.93 | 11.94 |
| Oil exports [2] *(million barrels per day)* | 3.67 | 3.33 | 3.73 | 3.92 | 4.05 |
| Oil export revenues [3] *(billion U.S. dollars)* | $38.00 | $34.00 | $32.00 | $36.00 | $33.00 |

[1] Data are for crude oil and exclude natural gas liquids, shale oil, natural gasoline, and synthetic crude oil.
[2] Including refined products; gross basis.
[3] Soviet prices to other CMEA countries, which in volume terms account for about one-half of Soviet exports of crude oil and petroleum products, have been based on an average of the world market prices for the previous five years.

*Source: CIA Handbook of Economic Statistics, 1989.*

**Figure 1-34**

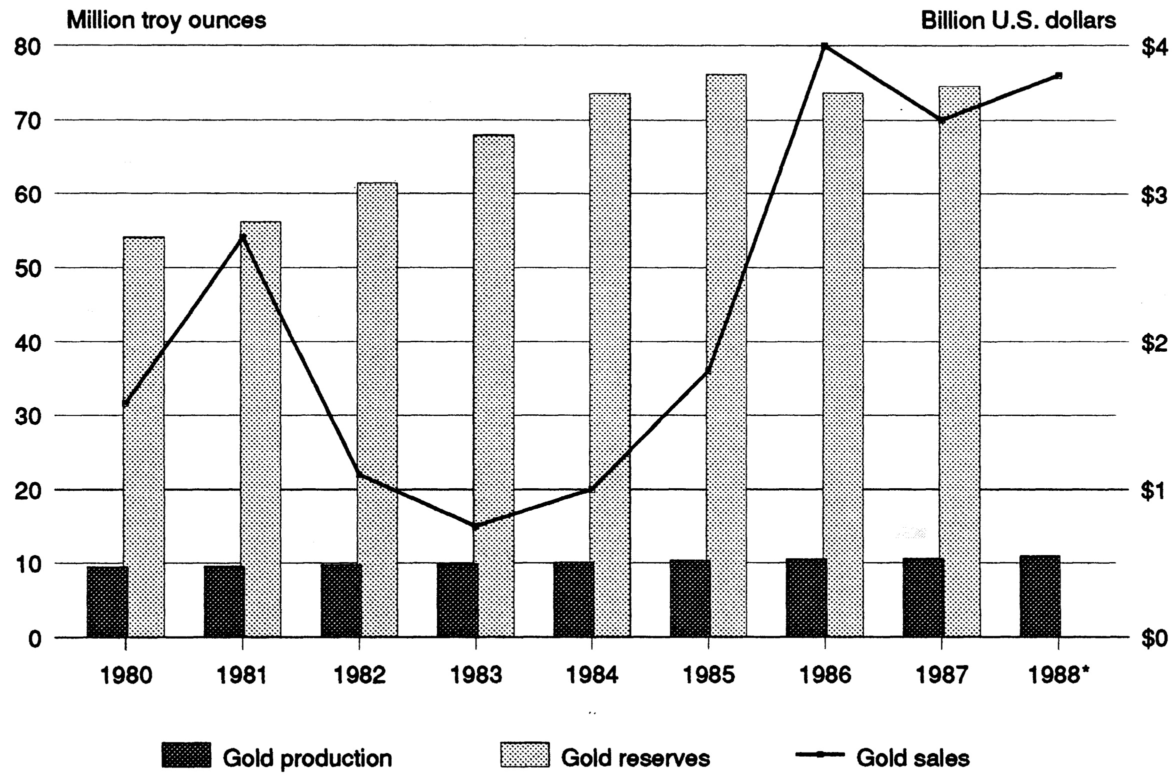
U.S.S.R.: Crude oil production, oil exports, and oil export earnings, 1980-88




Source: Compiled from data in the CIA Handbook, 1985 & 1989.

**Figure 1-35**

U.S.S.R.: Gold production, reserves, and hard currency gold sales, 1980-88

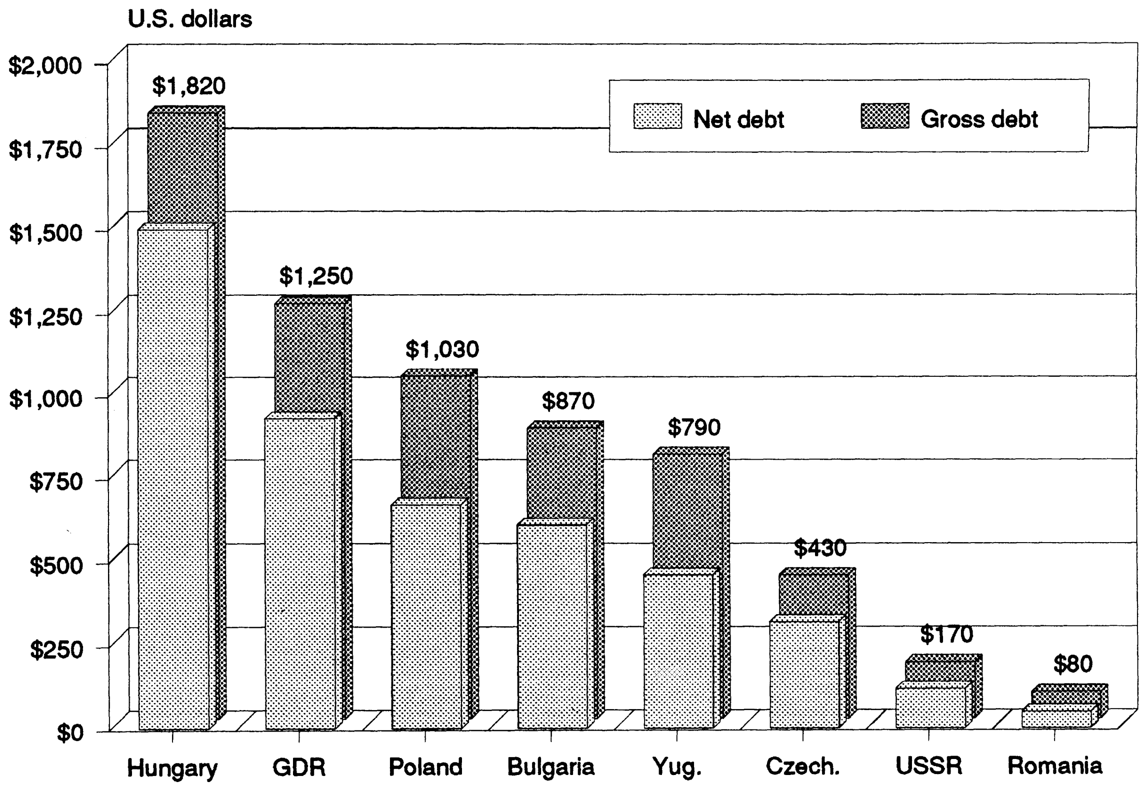



Source: Compiled from data in the CIA Handbook, 1985 & 1989.

* Gold reserve data not available for 1988

**Figure 1-36**

U.S.S.R. and East European hard currency debt per capita
(as of December 31, 1988)




Source: PlanEcon Trade and Finance Reviews, July 1989.

**Table 1-8**
U.S.S.R.: Estimated hard currency balance of payments (in million U.S. dollars), 1984-88

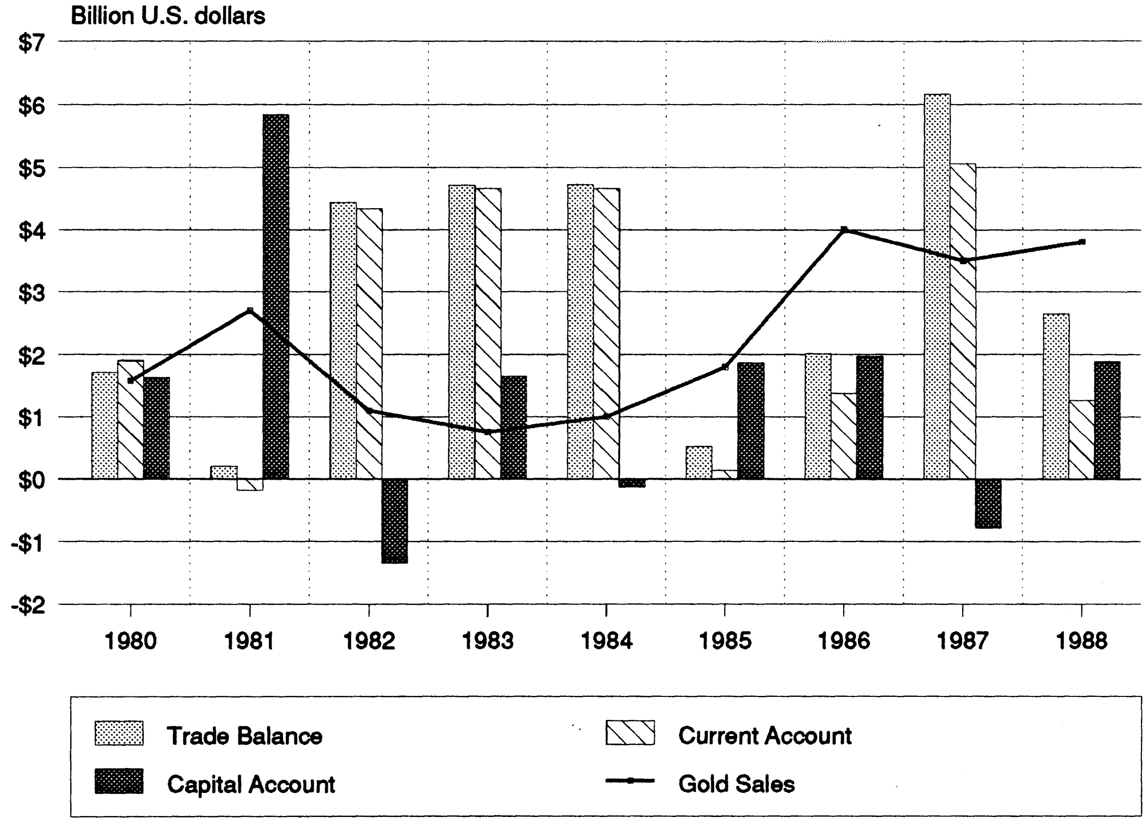
| | *1984* | *1985* | *1986* | *1987* | *1988* |
|---|---|---|---|---|---|
| Trade balance | 4,727 | 519 | 2,013 | 6,164 | 2,647 |
| Net interest | -1,163 | -1,482 | -1,737 | -2,205 | -2,481 |
| Other invisibles [1] | 1,100 | 1,100 | 1,100 | 1,100 | 1,100 |
| **Current account balance** | **4,664** | **137** | **1,376** | **5,059** | **1,266** |
| Change in gross debt [2] | 224 | 6,803 | 6,983 | 5,008 | 1,458 |
| Change in assets [3] | -664 | 1,787 | 1,595 | -527 | 1,119 |
| Estimated exchange rate effect on debts and assets | -688 | 3,248 | 3,322 | 5,012 | -3,247 |
| Net credits to LDCs | 2,700 | 1,700 | 4,100 | 4,800 | 5,500 |
| Gold sales | 1,000 | 1,800 | 4,000 | 3,500 | 3,800 |
| **Capital account balance** | **-124** | **1,868** | **1,966** | **-777** | **1,886** |
| Errors and omissions [4] | -4,540 | -2,005 | 3,342 | 4,282 | 3,152 |

[1] Including estimated net receipts from tourism, transportation, and official transfers.
[2] Including additions to short-term debt.
[3] Net change in Soviet assets held with Western commercial banks. A minus sign indicates a decrease in assets.
[4] Including Soviet hard currency aid to and trade with other Communist countries, trade credits extended to finance Soviet exports to developed countries, and other nonspecified hard currency expenditures, as well as errors and omissions in other line items of the accounts.

*Source: CIA Handbook of Economic Statistics, 1989.*

**Figure 1-37**

U.S.S.R.: Hard currency balance of payments, 1980-88




Source: Compiled from data in the CIA Handbook, 1985 & 1989.



**1-71**

*Commercial borrowing.--* **Figure 1-38** shows the major creditor countries in commercial lending to the Soviet Union. As of December 31, 1988, France ranked first in lending to the U.S.S.R. with nearly $8 billion. The United States ranked eighth with lending of $480 million. [117]

*Hard currency debt to the West.--* **Table 1-9 and Figure 1-39** show Soviet hard currency debt to the West by debt type. Since 1980, Soviet government-backed borrowing has remained near $10 billion per year, while commercial borrowing has increased substantially. In 1980, Soviet commercial debt stood at $11 billion. In 1988, Soviet commercial debt was $31.5 billion, a 186 percent increase. The U.S.S.R.'s debt-service ratio has increased since 1984. From 1980 to 1984, the Soviet's ratio ranged from 15-19 percent. From 1985 to 1988, the ratio reached a peak of 25 percent in 1986 and fell to 22 percent in 1988. [118]

*Hard currency trade with the United States.--* **Table 1-10 and Figure 1-40** show the U.S.S.R.'s hard currency trade with the United States in 1987 and 1988. In 1987, the U.S. trade balance with the U.S.S.R. was $1.01 billion. In 1988, the trade balance was $2.38 billion. [119]

## Composition and sources of Soviet trade

From 1948 until the early 1970s, there was very little growth in either U.S. imports or exports to the Soviet Union. **Figures 1-41 and 1-42** show U.S. trade with the U.S.S.R. from 1948 to 1988. In 1972, U.S. exports began to increase substantially but fluctuated around this trend. U.S. imports followed a similar trend, but at consistently lower levels. [120]

More recently, during 1984-89, United States-U.S.S.R. trade continued to fluctuate widely. Two-way merchandise trade between the two countries declined from $3.9 billion in 1984 to lows of approximately $1.9 billion in 1986 and 1987 before rising to $5.0 billion in 1989. Even at its highest level, U.S. trade with the Soviet Union accounted for less than 1 percent of total U.S.-world trade. U.S. exports to the Soviet Union dominated the trade relationship, creating a surplus, which also fluctuated widely during the period.

*Composition of trade.--* **Figure 1-43** compares the composition of all merchandise exports of the U.S.S.R. and the United States. The export of energy products accounted for more than 50 percent of total Soviet exports, while in the United States, machinery and equipment exports accounted for

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[117] PlanEcon Trade and Finance Reviews, July 1989.

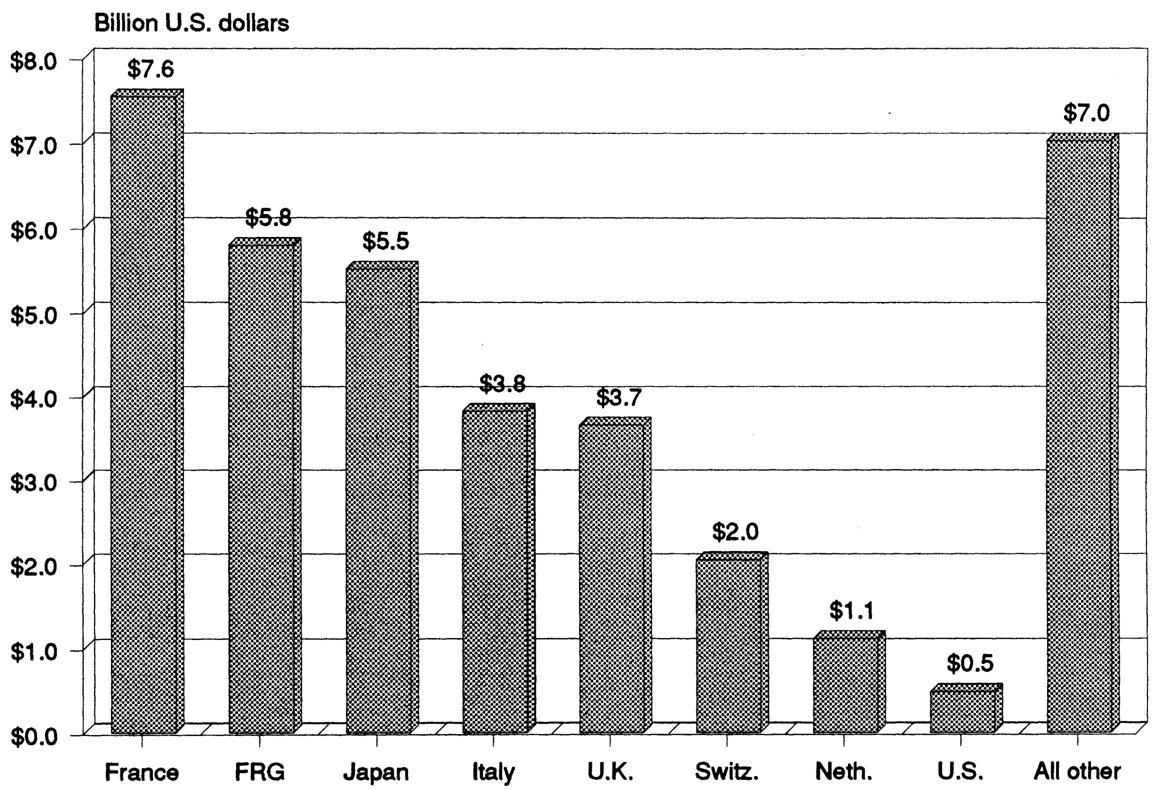
[118] CIA Handbook of Economic Statistics, 1985, p. 73, and CIA Handbook of Economic Statistics, 1989, p. 70.

[119] CIA Handbook of Economic Statistics, 1989, p. 163.

[120] U.S. International Trade Commission, Survey of Views on the Impact of Granting Most Favored Nation Status to the Soviet Union, U.S. International Trade Commission Pub. 2251, January 1990. Much of the following discussion is taken from this source. Hereafter cited as MFN Survey.

**Figure 1-38**

Major creditor countries in commercial lending to the Soviet Union (as of December 31, 1988)




Source: PlanEcon Trade and Finance Reviews, July 1989.

**Table 1-9**
U.S.S.R.: Estimated hard currency debt to the West (in billion U.S. dollars), 1983-88

| | *1983* | *1984* | *1985* | *1986* | *1987* | *1988* [1] |
|---|---|---|---|---|---|---|
| Commercial debt | 12.6 | 13.2 | 19.5 | 25.9 | 30.1 | 31.5 |
| Government-backed debt | 9.4 | 9.1 | 9.5 | 10.1 | 10.7 | 10.8 |
| **Gross debt** | **22.0** | **22.3** | **29.0** | **36.0** | **40.8** | **42.3** |
| Assets with Western banks | 12.2 | 11.5 | 13.3 | 14.9 | 14.4 | 14.4 |
| **Net debt** | **9.8** | **10.7** | **15.7** | **21.1** | **26.4** | **27.9** |
| Debt service | 5.6 | 5.6 | 7.2 | 7.9 | 8.6 | 8.0 |
| Debt-service ratio (percent) [2] | 16.0 | 15.0 | 23.0 | 25.0 | 24.0 | 22.0 |

[1] Preliminary.
[2] Debt service as a share of commodity export earnings plus sales of arms, gold, interest receipts, invisibles, and transfers.

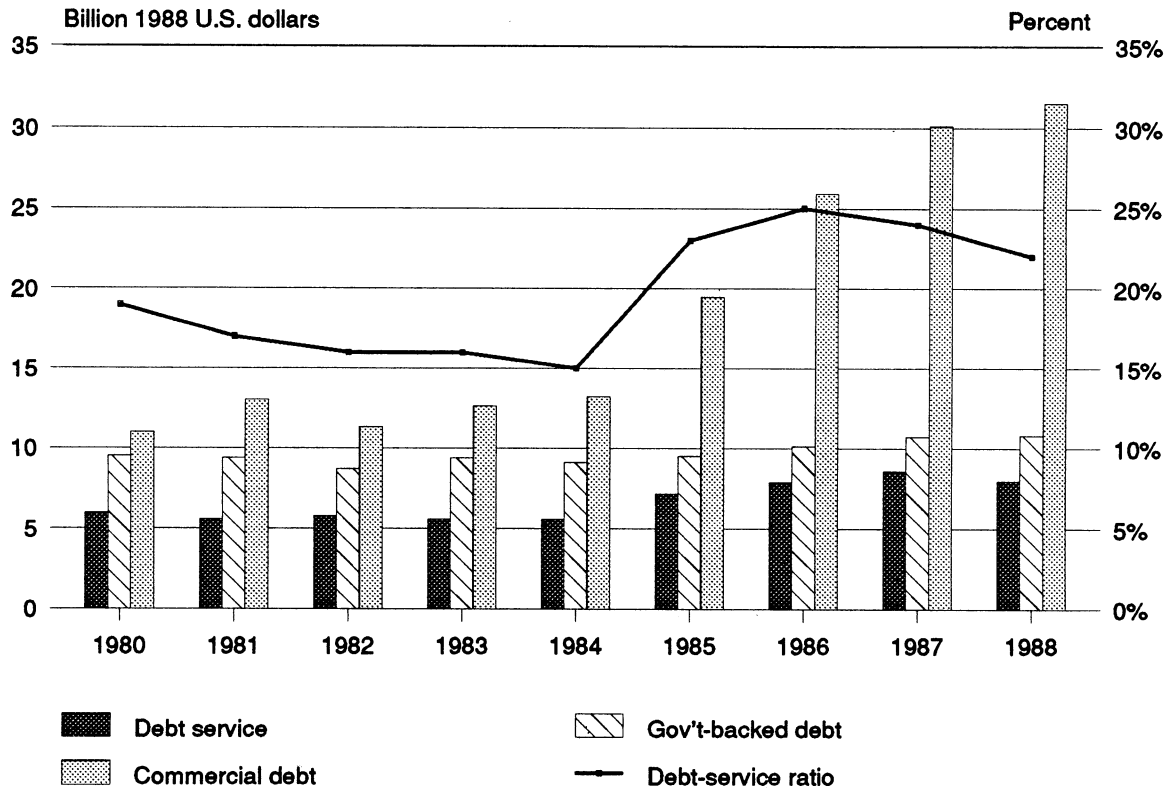
*Source: CIA Handbook of Economic Statistics, 1989.*



**1-74**

**Figure 1-39**

U.S.S.R.: Hard currency debt to the West, 1980-88




Source: Compiled from data in the CIA Handbook, 1985 & 1989.

**Table 1-10**
U.S.S.R.: Hard currency trade with the United States, Federal Republic of Germany, Japan, United Kingdom, France, and Italy (in million U.S. dollars), 1987-88 [1]

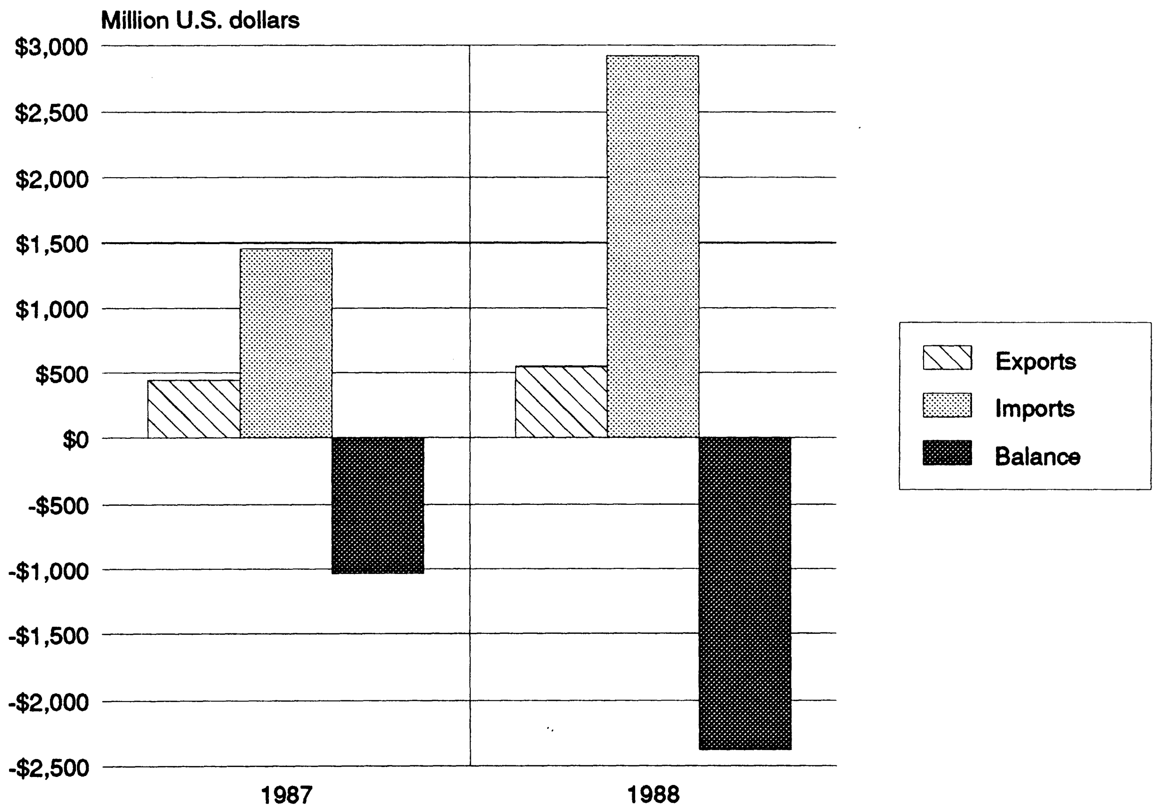
| | *1987* | | | *1988* | | |
|---|---|---|---|---|---|---|
| | *Exports* [2] | *Imports* | ***Balance*** | *Exports* | *Imports* | ***Balance*** |
| United States | 441 | 1,453 | **-1,012** | 547 | 2,925 | **-2,378** |
| F.R.G. | 3,677 | 4,155 | **-478** | 3,955 | 5,332 | **-1,377** |
| Japan | 1,537 | 2,573 | **-1,036** | 1,954 | 3,219 | **-1,265** |
| U.K. | 2,506 | 828 | **1,678** | 2,960 | 1,028 | **1,932** |
| France | 2,398 | 1,723 | **675** | 2,605 | 1,963 | **642** |
| Italy | 2,851 | 2,665 | **186** | 2,791 | 2,216 | **575** |

[1] Official Soviet trade data on f.o.b. basis.
[2] Includes exports not specified by partner countries, which are believed to be deliveries of military goods.

*Source: CIA Handbook of Economic Statistics, 1989.*

**Figure 1-40**

U.S.S.R.: Hard currency exports, imports and trade balance with the United States, 1987-88




Source: Compiled from data in the CIA Handbook, 1989.

**Figure 1-41** United States trade with the U.S.S.R., 1948-70

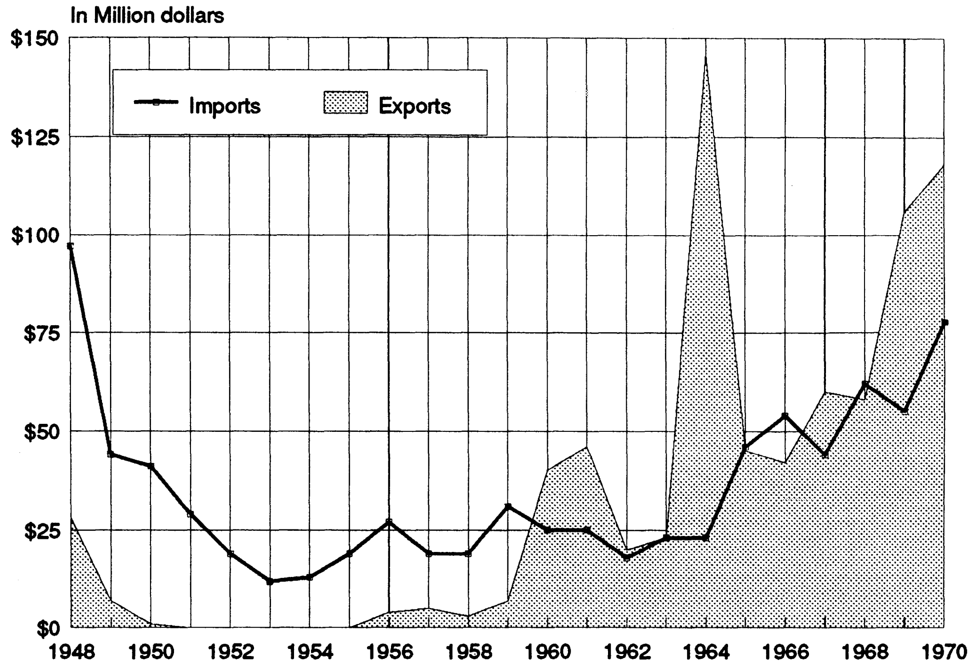
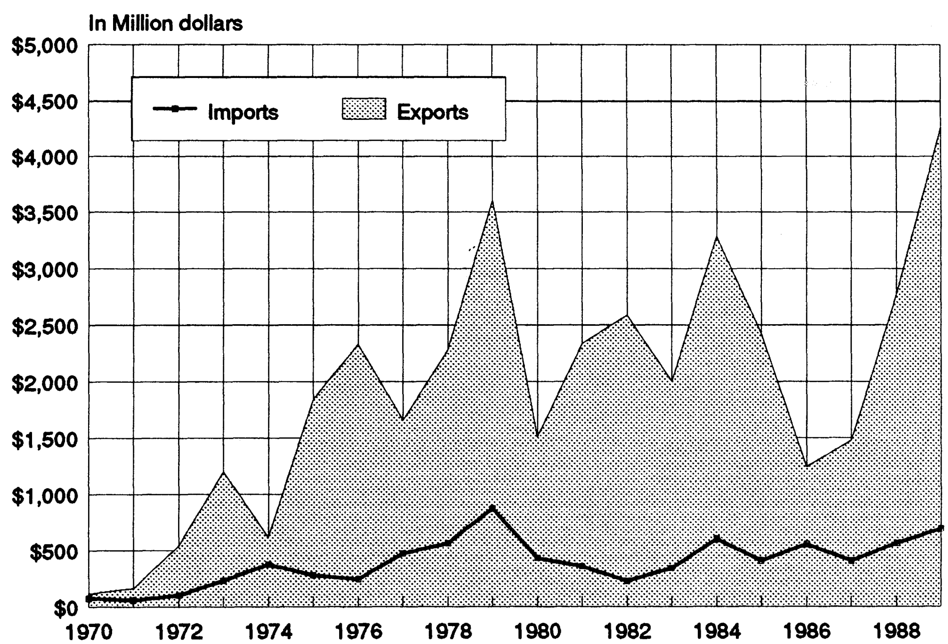


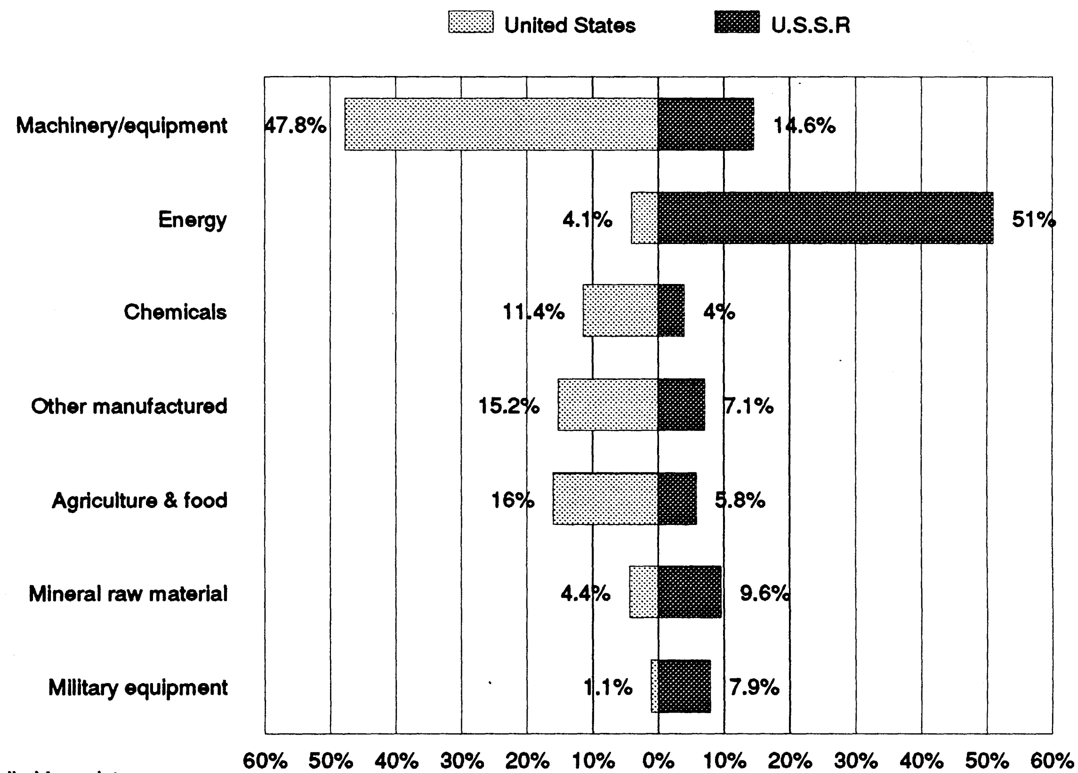

**Figure 1-42** United States trade with the U.S.S.R., 1970-89




Source: Compiled from official statistics of the U.S. Dept. of Commerce

**Figure 1-43**

U.S.S.R.: Composition of merchandise exports compared with the United States (in percent), 1986




Source: Compiled from data in the CIA Handbook, 1989.

nearly 50 percent of exports. **Table 1-11** presents U.S. trade with the U.S.S.R. by Schedule B and HTS sections for 1987, 1988, and 1989.

Agricultural and agricultural related products (SIC sections 01, 20, and 28) dominated U.S. exports, accounting for almost 87 percent of the total value of exports to the U.S.S.R. in 1988. **Figure 1-44** shows the quantity of U.S. agricultural exports to the U.S.S.R. from 1980-88. [121] The primary agricultural and related products exported were corn (excluding seed), wheat (excluding durum wheat), soybeans and soybean oil products, animal fats, grain sorghum, and almonds. Other leading exported items included fertilizers, rolled iron and steel, oil pipe and tubes, and certain food processing machinery. **Figure 1-45 and Table 1-12** show the leading items exported to the U.S.S.R. from the United States. [122]

U.S. exports that showed significant gains during 1984-89 were concentrated in construction, farm machinery and equipment, and scientific and professional instruments. Some of the specific exported items showing large increases were printing machines, air and gas compressors, fans and blowers, radio and television sets, phonographs, motor vehicle parts, environmental controls and parts, orthopedic, prosthetic, and surgical equipment, and blast furnace, steel works, and rolling mill products.

U.S. imports from the Soviet Union also fluctuated widely during 1984-89. These fluctuations largely reflected a considerable decline in imports of refined petroleum products during 1985-87. The increase in imports in 1986 is explained by very large purchases of Soviet gold bullion, valued at $154.3 million in 1986. The sale of gold bullion in that year occurred at a time when Soviet hard currency earnings were reduced owing to a decline in the price of oil. There were no imports of gold bullion in 1987. U.S. imports from the Soviet Union increased by 23 percent between 1988 and 1989, owing to substantial increases in imports of petroleum products, rhodium, enriched uranium, and works of art. **Figure 1-46 and Table 1-13** show the leading items imported into the United States from the U.S.S.R. [123]

*Market share of imports in the Soviet Union, by source.*-- Other major trading partners of the Soviet Union include Eastern Europe and the European Community. China, Latin America, and Canada account for a much smaller proportion of trade. **Figure 1-47** shows the market share of imports of non-fuel goods from the United States and selected countries. **Figure 1-48** shows the U.S.'s market share of imports of non-fuel goods from the U.S.S.R. and selected countries. [124]

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[121] Compiled from statistics of the USDA, Economic Research Service.

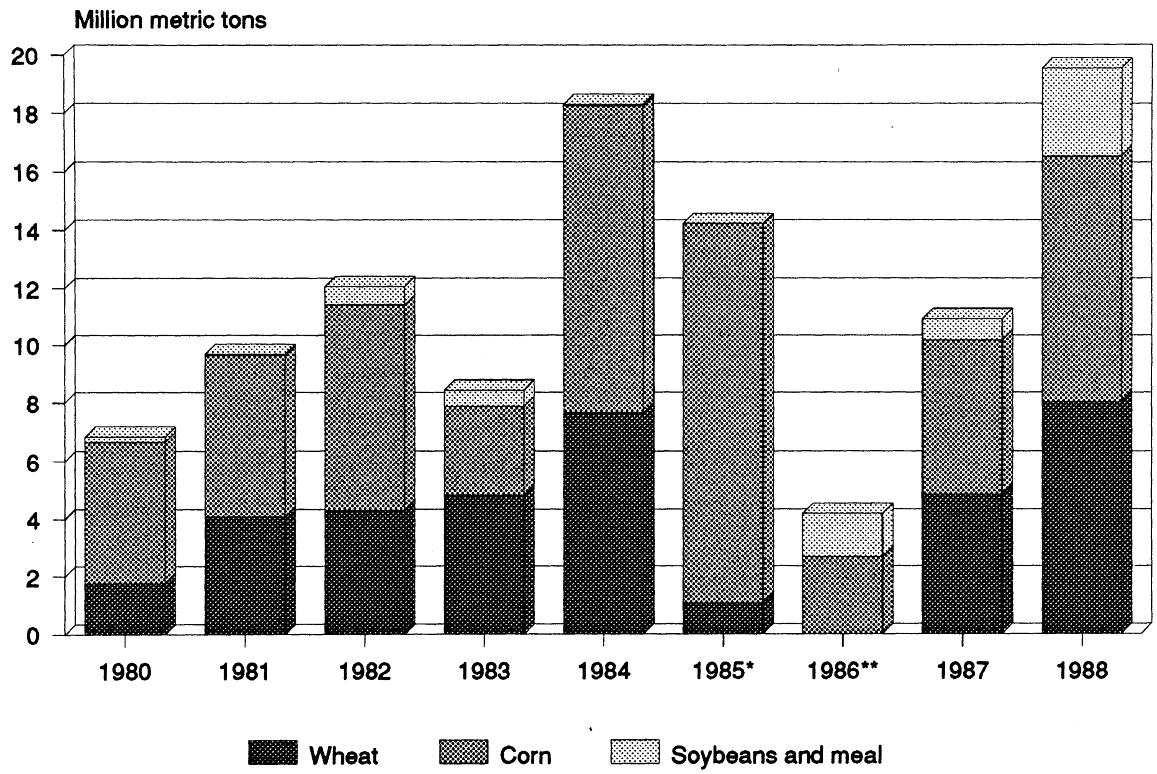
[122] Compiled from statistics of the U.S. Department of Commerce.

[123] Ibid.

[124] CIA Handbook of Economic Statistics, 1989, p. 157.

**Figure 1-44**

United States agricultural exports to the U.S.S.R., by quantity, 1980-88




Source: Compiled from statistics of the USDA, Economic Research Service.

* In 1985, there were no soybean exports to the U.S.S.R.

** In 1986, there were no wheat exports to the U.S.S.R.

Table 1-11
U.S. trade with the U.S.S.R.[1] (In thousands of dollars), by Schedule B and HTS sections, 1987-89

| Section | 1987 | 1988 | 1989 |
|---|---|---|---|
| U.S. exports: | | | |
| 1. Live animals; animal products | $2,925 | $3,316 | $14,069 |
| 2. Vegetable products | 840,696 | 1,856,595 | 3,009,412 |
| 3. Animal or vegetable fats, oils, and waxes | 18,788 | 26,395 | 26,694 |
| 4. Prepared foodstuffs, beverages, and tobacco | 68,818 | 253,727 | 389,532 |
| 5. Mineral products | 78,641 | 76,984 | 29,331 |
| 6. Products of the chemical or allied industries | 227,851 | 233,538 | 286,234 |
| 7. Plastics and rubber, and articles thereof | 71,882 | 64,230 | 55,249 |
| 8. Hides and skins; leather and articles thereof; travel goods, handbags, similar containers | 1,203 | 1,910 | 2,712 |
| 9. Articles of wood, cork, or plaiting materials | 0 | 76 | 90 |
| 10. Wood pulp; paper, paperboard, articles thereof | 13,482 | 22,261 | 22,786 |
| 11. Textiles and textile articles | 4,614 | 35,543 | 10,049 |
| 12. Footwear, headgear, and artificial flowers | 3 | 24 | 61 |
| 13. Articles of stone or ceramics; glass, glassware | 3,850 | 2,038 | 2,651 |
| 14. Pearls; precious stones and metals; jewelry | 516 | 693 | 9,337 |
| 15. Base metals and articles of base metal | 943 | 28,215 | 108,982 |
| 16. Machinery and mechanical appliances; electrical equipment; parts and accessories thereof | 71,380 | 94,976 | 217,133 |
| 17. Vehicles, aircraft, other transport equipment | 15,229 | 20,570 | 26,632 |
| 18. Optical, photographic, measuring, medical apparatus; clocks, watches; musical instruments | 54,625 | 37,478 | 44,465 |
| 19. Arms, ammunition; parts, accessories thereof | 0 | 0 | 0 |
| 20. Miscellaneous manufactured articles | 750 | 509 | 1,425 |
| 21. Works of art, collectors' pieces, antiques | 165 | 269 | 657 |
| 22. Special classification provisions | 1,039 | 3,409 | 4,834 |
| **Total, U.S. exports to the U.S.S.R.** | **$1,477,399** | **$2,762,754** | **$4,262,336** |

(Table continued...)

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Table 1-11 (continued...)
U.S. trade with the U.S.S.R.[1] (in thousands of dollars), by Schedule B and HTS sections, 1987-89

| Section | 1987 | 1988 | 1989 |
|---|---|---|---|
| U.S. imports: | | | |
| 1. Live animals; animal products | $1,571 | $5,397 | $3,434 |
| 2. Vegetable products | 344 | 1,026 | 118 |
| 3. Animal or vegetable fats, oils, and waxes | 0 | 8 | 0 |
| 4. Prepared foodstuffs, beverages, and tobacco | 19,012 | 26,167 | 25,408 |
| 5. Mineral products | 97,875 | 193,530 | 282,714 |
| 6. Products of the chemical or allied industries | 91,439 | 113,145 | 106,804 |
| 7. Plastics and rubber, and articles thereof | 266 | 514 | 626 |
| 8. Hides and skins; leather and articles thereof; travel goods, handbags, similar containers | 20,476 | 17,073 | 14,046 |
| 9. Articles of wood, cork, or plaiting materials | 7,808 | 5,506 | 3,863 |
| 10. Wood pulp; paper, paperboard, articles thereof | 1,790 | 2,612 | 2,191 |
| 11. Textiles and textile articles | 7,709 | 3,687 | 12,736 |
| 12. Footwear, headgear, and artificial flowers | 1 | [2] | 196 |
| 13. Articles of stone or ceramics; glass, glassware | 2,887 | 3,517 | 4,885 |
| 14. Pearls; precious stones and metals; jewelry | 104,326 | 117,114 | 165,077 |
| 15. Base metals and articles of base metal | 36,750 | 47,938 | 30,976 |
| 16. Machinery and mechanical appliances; electrical equipment; parts and accessories thereof | 2,348 | 5,692 | 2,828 |
| 17. Vehicles, aircraft, other transport equipment | 5,472 | 9,450 | 11,648 |
| 18. Optical, photographic, measuring, medical apparatus; clocks, watches; musical instruments | 191 | 193 | 1,400 |
| 19. Arms, ammunition; parts, accessories thereof | 35 | 35 | 47 |
| 20. Miscellaneous manufactured articles | 342 | 665 | 832 |
| 21. Works of art, collectors' pieces, antiques | 5,291 | 7,148 | 16,335 |
| 22. Special classification provisions | 2,274 | 3,459 | 4,726 |
| Total, U.S. imports from the U.S.S.R. | $408,205 | $563,877 | $690,891 |

[1] Includes Estonia, Latvia, and Lithuania.
[2] Less than $500.

*Source: Compiled from official statistics of the U.S. Department of Commerce.*

**Figure 1-45** Leading items exported to the U.S.S.R. from the United States, by HTS subheadings, 1989

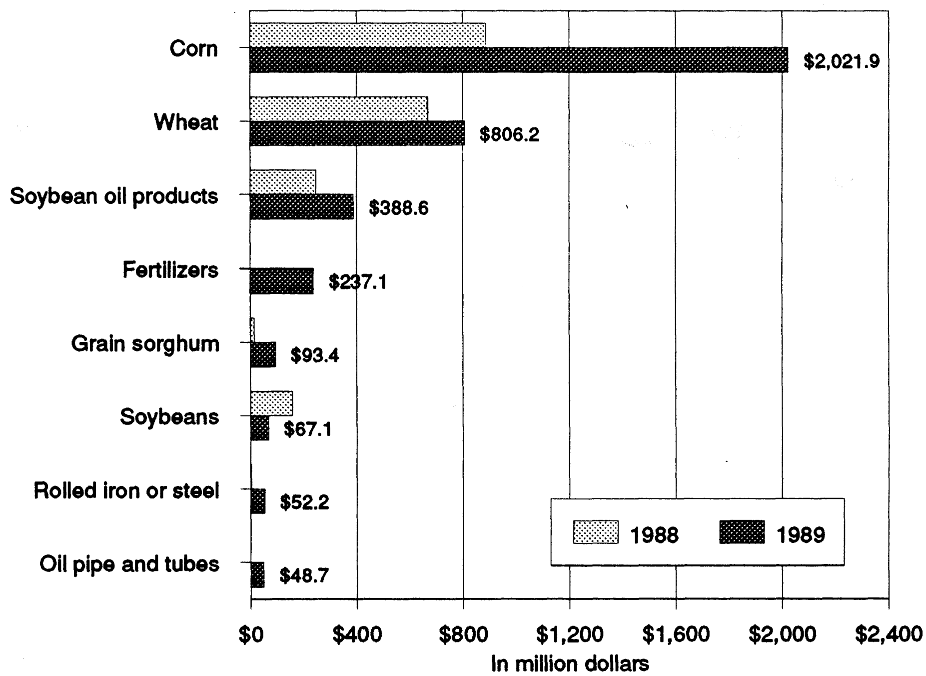
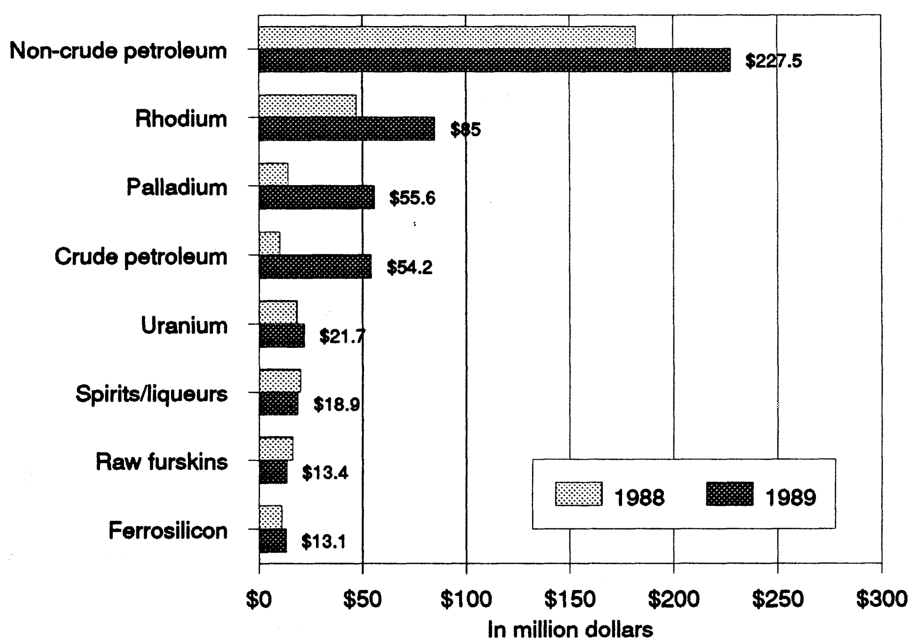



**Figure 1-46** Leading items imported into the United States from the U.S.S.R., by HTS subheadings, 1989




Source: Compiled from statistics of the U.S. Department of Commerce

**Figure 1-47** U.S.S.R.: Market share of imports of non-fuel goods from the United States, and selected countries and regions, 1987

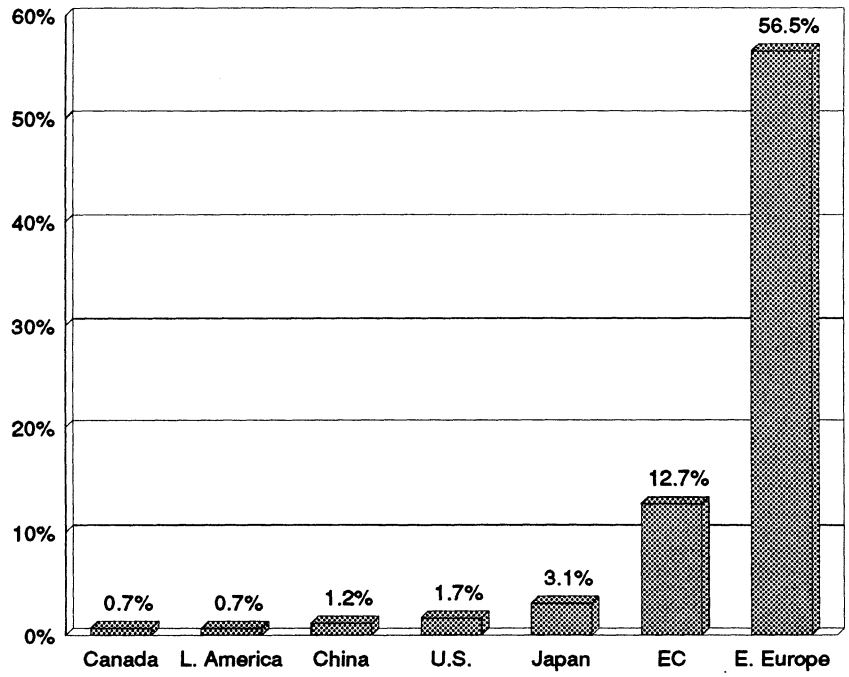
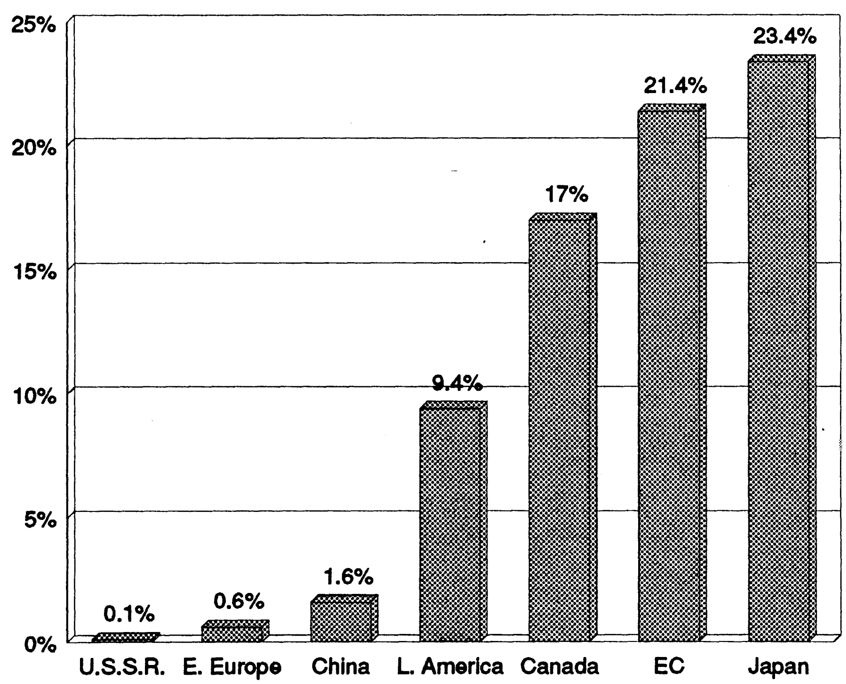



**Figure 1-48** United States: Market share of imports of non-fuel goods from the U.S.S.R., and selected countries and regions, 1987




Source: Compiled from data in the CIA Handbook, 1989.

Table 1-12
Leading items exported to the U.S.S.R.[1] (In thousands of dollars), by schedule B subheadings, 1988 and 1989

| Schedule B subheading | Description | 1988 | 1989 | percent change |
|---|---|---|---|---|
| 1005.90 | Corn (maize), excluding seed | $887,812 | $2,021,881 | 128 |
| 1001.90 | Wheat and meslin, excluding durum wheat | 667,787 | 806,202 | 21 |
| 2304.00 | Oilcake and other solid residues, resulting from the extraction of soybean oil | 246,260 | 388,552 | 58 |
| 3100.00 | Fertilizers | 118,090 | 237,073 | 101 |
| 1007.00 | Grain sorghum | 13,566 | 93,447 | 589 |
| 1201.00 | Soybeans, whether or not broken | 157,879 | 67,092 | -58 |
| 7210.49 | Flat-rolled products of iron or nonalloy steel 600mm or more wide, plated or coated with zinc (other than electrolytically), other than corrugated | 1,438 | 52,188 | 3,529 |
| 7304.20 | Seamless casing, tubing and drill pipe, of a kind used in the drilling for oil or gas, of iron (other than cast iron) or steel | 0 | 48,701 | n/a |
| 1502.00 | Fats of bovine animals, sheep, or goats, raw or rendered, whether or not pressed or solvent-extracted | 26,382 | 26,005 | -1 |
| 8430.49 | Boring or sinking machinery, nesi, not self-propelled | 237 | 25,568 | 10,688 |
| 3920.10 | Nonadhesive plates, sheets, film, foil and strip, of polymers of ethylene, noncellular, not reinforced or combined with other materials | 224 | 22,380 | 9,891 |
| 0802.12 | Almonds, shelled, fresh, or dried | 46,848 | 19,507 | -58 |
| 4702.00 | Chemical woodpulp, dissolving grades | 12,965 | 18,988 | 46 |
| 8431.43 | Parts for boring or sinking machinery of subheading 8430.41 or 8430.49 | 13,036 | 18,681 | 43 |
| 8461.40 | Gear cutting, gear grinding, or gear finishing machines working by removing metal, sintering metal carbides or cermets, nesi | 888 | 17,153 | 1,832 |
| 2710.00 | Petroleum oils and oils obtained from bituminous minerals, other than crude; preparations not elsewhere specified or included | 42,472 | 14,378 | -66 |
| 2817.00 | Zinc oxide; zinc peroxide | 718 | 9,905 | 1,280 |
| 8438.60 | Machinery for the preparation of fruits, nuts, vegetables | 71 | 9,647 | 13,487 |
| 3004.90 | Certain medicaments put up in measured doses or in forms or packings for retail sale, nesi | 120 | 9,482 | 7,802 |
| 0207. 41 | Cuts and offal, of chickens, other than livers, frozen | 0 | 8,961 | n/a |
| | Total | $2,236,791 | $3,915,791 | 75 |
| | Total, U.S. exports to the U.S.S.R. | $2,762,754 | $4,262,336 | 54 |

[1] Includes Estonia, Latvia, and Lithuania.

Note--Because of rounding, figures may not add to the totals shown.

*Source: Compiled from official statistics of the U.S. Department of Commerce.*

Table 1-13
Leading items imported from the U.S.S.R.[1] (in thousands of dollars), by HTS subheadings, 1988 and 1989

| HTS subheading | Description | 1988 | 1989 | percent change |
|---|---|---|---|---|
| 2710.00 | Petroleum oils and oils obtained from bituminous minerals other than crude; preparations not elsewhere specified or included | $181,796 | $227,503 | 25 |
| 7110.29 | Palladium in semimanufactured forms | 14,230 | 55,581 | 291 |
| 2814.10 | Anhydrous ammonia | 63,263 | 54,970 | -13 |
| 2709.00 | Petroleum oils and oils obtained from bituminous minerals, crude | 10,237 | 54,188 | 429 |
| 7110.31 | Rhodium, unwrought or in powdered form | 45,770 | 49,071 | 7 |
| 7110.39 | Rhodium in semimanufactured form | 1,259 | 35,977 | 2,757 |
| 2844.20 | Uranium enriched in U235 and plutonium and their compounds; alloys, dispersions, ceramic products and mixtures containing these products | 1,831 | 21,679 | 1,083 |
| 2208.90 | Spirits, liqueurs, and other spirituous beverages, nesi | 20,058 | 18,941 | -6 |
| 4301.80 | Raw furskins, whole, with or without head, tail, or paws, nesi, but not of heading 4101, 4102, or 4103 | 16,350 | 13,445 | -18 |
| 7202.29 | Ferrosilicon not containing by weight more than 55% of silicon | 10,943 | 13,124 | 20 |
| 9701.10 | Paintings, drawings, and pastels, executed entirely by hand, framed or not framed | 4,047 | 12,021 | 197 |
| 2902.43 | p-Xylene | 1,334 | 11,610 | 770 |
| 8701.90 | Tractors (other than tractors of heading 8709), nesi | 8,733 | 10,777 | 23 |
| 7110.11 | Platinum, unwrought or in powder form | 16,220 | 10,695 | -34 |
| 3104.20 | Potassium chloride | 24,183 | 7,981 | -67 |
| 5208.12 | Plain weave fabrics of unbleached cotton, containing 85% or more by weight of cotton and weighing more than 100 g/m2 | 2,532 | 6,966 | 175 |
| 7602.00 | Aluminum waste and scrap | 29,118 | 6,478 | -78 |
| 7110.21 | Palladium, unwrought or in powder form | 31,541 | 6,088 | -81 |
| 1604.30 | Caviar and caviar substitutes prepared from fish eggs | 2,105 | 4,921 | 134 |
| 8108.10 | Unwrought titanium; waste and scrap; powders | 0 | 4,007 | n/a |
| | **Total, leading items imported** | **$485,550** | **$626,020** | **29** |
| | **Total, U.S. imports from the U.S.S.R.** | **$563,877** | **$690,891** | **23** |

[1] Includes Estonia, Latvia, and Lithuania.

Note--Because of rounding, figures may not add to the totals shown.

*Source: Compiled from official statistics of the U.S. Department of Commerce.*

## UNITED STATES LAWS CONCERNING TRADE WITH THE U.S.S.R. [125]

### Tariff schedules

In 1962, Congress enacted the Tariff Classification Act of 1962, [126] which simplified the structure of the tariff schedules that had been established by the Tariff Act of 1930. The 1962 act provided for eight schedules plus an appendix, collectively enacted as the Tariff Schedules of the United States (TSUS). [127] The TSUS codified the former "Reduced rate" column as "Column 1" and the former "Full rate" column as "Column 2." The TSUS also codified, in a general headnote (headnote 3(d)), the list of countries that were subject to the rates of duty in column 2; all other countries were eligible for column 1 (MFN) rates. A discussion of the differences between column 1 and column 2 rates of duty is contained in **Appendix B.**

With the enactment of the Omnibus Trade and Competitiveness Act of 1988 (OTCA), Congress restructured the U.S. Tariff Schedule in order to harmonize this country's tariff nomenclature with that of our major trading partners, including the U.S.S.R. [128] Effective January 1, 1989, the Harmonized Tariff Schedule of the United States (HTS) replaced the former TSUS. The HTS retained the two rate columns entitled "column 1" and "column 2" in the TSUS. Imports continue to be subject to column 1 or column 2 rates depending upon the current status of the country of origin of the goods.

### The Trade Act of 1974

Products entering the United States from the Soviet Union and certain other nonmarket economy countries are currently not accorded most-favored-nation (MFN) treatment and thus are not eligible for the generally lower rates of duty accorded to products originating in countries whose products receive such treatment. In addition, certain U.S. Government trade-related insurance, loan, and loan-guarantee programs apply only to trade with countries receiving MFN treatment. Thus, U.S. exports to the Soviet Union, for example, are not eligible for Ex-Im Bank loans or OPIC insurance.

Since the mid-1930s the United States has substantially reduced most of its rates of duty, initially through bilateral trade agreements and since 1948 as a result of GATT-sponsored multilateral trade negotiations. The United States has applied these lower rates to products originating in countries to which the United States accords MFN treatment. These generally lower MFN rates of duty are set forth in column 1 of the U.S. tariff schedule. Rates of duty applicable to products from countries that

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[125] This section was excerpted from USITC, MFN Survey, USITC Pub. 2251, Jan. 1990, pp. 1-1 through 1-5. See also, U.S. Laws and U.S. and EC Trade Agreements Relating to Nonmarket Economies, Vol. 1, USITC Pub. 2269, April 1990.

[126] Public Law No. 87-456, 76 Stat. 72 (1962).

[127] 19 U.S.C. 1202 (1963).

[128] Public Law No. 100-418, 102 Stat. 1107, 1147-1163, Title I, Subtitle B (1988).

do not receive MFN treatment, such as the Soviet Union, [129] are set forth in column 2 of the U.S. tariff schedule. These rates are generally the same as the 1930 (Smoot-Hawley) U.S. rates of duty and are generally substantially higher than column 1 rates. The term "most-favored-nation" treatment as used in U.S. trade law and in international trade agreements such as the General Agreement on Tariffs and Trade (GATT) generally refers to the practice of providing nondiscriminatory treatment in the form of customs duties and other charges imposed in connection with the importation and exportation of products.

Title IV of the Trade Act of 1974 contains provisions concerning trade relations with countries not receiving nondiscriminatory treatment at the time of enactment. Except as otherwise provided in that Act, the President is directed under section 401 to continue to deny nondiscriminatory, i.e. MFN, treatment to the products of countries that were denied such treatment as of January 3, 1975 (the date on which the statute was enacted). [130] On the date of enactment, the TSUS listed the following countries or areas as those whose products were subject to tariff treatment under column 2 and, therefore, ineligible for MFN status at that time:

> *Albania, Bulgaria, China (any part of which may be under Communist domination or control), Cuba, Czechoslovakia, Estonia, Germany, (the Soviet zone and the Soviet sector of Berlin), Hungary, Indochina (any part of Cambodia, Laos, or Vietnam which may be under Communist domination or control), Korea (any part of which may be under Communist domination or control), Kurile Islands, Latvia, Lithuania, Outer Mongolia, Rumania, Southern Sakhalin, Tanna Tuva, Tibet, [and] Union of Soviet Socialist Republics and the area in East Prussia under the provisional administration of the Union of Soviet Socialist Republics.* [131] [132]

The Trade Act of 1974 set out two requirements which must be met by any of the countries listed above, before becoming eligible for MFN treatment. First, the President must determine that the country complies with the freedom of emigration provisions of section 402 of the Trade Act and submit a report to Congress indicating that this is so. [133] Second, the President must complete a

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[129] The terms "U.S.S.R" and "Soviet Union" as used in this section are interchangeable and generally refer to all of the areas controlled by the Soviet Union, including Estonia, Latvia, and Lithuania. However, each of these areas is treated, for U.S. tariff purposes, as an area separate from the Soviet Union. An action extending MFN treatment to the Soviet Union would not apply to these areas unless they were specifically named.

[130] 19 U.S.C. section 2431. Prior to enactment of the 1974 Act, nondiscriminatory trade treatment was denied to all Communist countries, except Poland and Yugoslavia, under section 231 of the Trade Expansion Act of 1962, as amended by section 402 of the Foreign Assistance Act of 1963.

[131] General headnote 3(e), TSUS (1975)

[132] The following countries currently remain subject to tariff treatment under column 2: Afghanistan, Albania, Bulgaria, Cuba, Czechoslovakia, Estonia, German Democratic Republic, Kampuchea, Laos, Latvia, Lithuania, Mongolia, North Korea, Romania, Union of Soviet Socialist Republics, [and] Vietnam. General note 3(b), HTS (1989).

[133] 19 U.S.C. section 2432(a), (b).

bilateral commercial agreement that meets the requirements of section 405 of the Trade Act, discussed in more detail below. [134]

A decision to grant MFN status to the "Soviet Union" under Title IV raises a question as to the geopolitical areas to be covered by the grant. At the time of the enactment of this statute, Estonia, the Kurile Islands, Latvia, Lithuania, Southern Sakhalin, Tanna Tuva, and "the area is East Prussia under the provisional administration of the Union of Soviet Socialist Republics" were all listed separately from the Union of Soviet Socialist Republics for tariff purposes. [135] Under the HTS, Estonia, Latvia, and Lithuania continue to be listed separately, although the other areas are not specifically referenced. [136]

*Jackson-Vanik amendment.*-- Section 402 of the 1974 Trade Act is commonly referred to as the Jackson-Vanik amendment. Under its provisions, products from a nonmarket economy country may not receive MFN treatment, and the country may not participate in U.S. financial credit or guarantee programs, if the President determines that the country:

(1) denies its citizens the right or opportunity to emigrate;
(2) imposes more than a nominal tax on visas or other documents required for emigration; and
(3) imposes more than a nominal levy, fine, fee, or other charge on any citizen as a consequence of the desire to emigrate. [137]

Products of nonmarket economy countries (NMEs) may be eligible for MFN treatment and for U.S. financial programs, and the President may conclude a commercial agreement with an NME country, only after the President submits a report to Congress indicating that the country is not in violation of the conditions listed in the preceding paragraph. Such report must include information as to the nature and implementation of emigration laws and policies and restrictions or discrimination applied to persons wishing to emigrate. [138] After initial submission of the report, the President must submit updated reports biannually, before June 30 and December 31 of each year that the MFN agreement is in effect. [139]

The President may waive by executive order the application of the above requirements if he reports to Congress that (1) he has determined that the waiver will substantially promote the objectives of the freedom-of-emigration provisions, and (2) he "has received assurances that the emigration

[134] 19 U.S.C. section 2435.

[135] General headnote 3(e), TSUS (1975).

[136] General note 3(b), HTS (1989).

[137] 19 U.S.C. § 2432(a)(1), (2), (3).

[138] 19 U.S.C. § 2432(b).

[139] Ibid.

practices of that country will henceforth lead substantially to the achievement of the objectives of this section." [140]

*Sections 404 and 405 of the Trade Act.--* Sections 404 and 405 of the Trade Act authorize the President to enter into, and effectuate by proclamation, bilateral commercial agreements providing for MFN treatment to the products of countries listed in HTS headnote 3(d). [141] As explained above, the President must comply with the reporting requirements of the Jackson-Vanik amendment as a precedent to concluding such an agreement. Any such bilateral commercial agreement must be limited to an initial period specified in the agreement, which period shall be no more than 3 years from the date the agreement enters into force. The agreement may be renewable for additional periods, each not to exceed 3 years, contingent upon a satisfactory balance of trade and services concessions and satisfactory reciprocity. [142]

In addition, the bilateral commercial agreement must include provisions for: suspension or termination for national security reasons; safeguards against disruption of domestic markets; protection of intellectual property rights; settlement of commercial disputes; consultations for the purpose of renewing the operation of the agreement and the relations between the parties to the agreement; and arrangements for the promotion of trade and other appropriate commercial arrangements. [143]

Before a bilateral commercial agreement negotiated under section 405 and the President's implementing proclamation under section 404 can take effect, they must receive Congressional approval by the adoption of a concurrent resolution. [144] The procedures to be employed by Congress in introducing and adopting such a concurrent resolution are set forth in section 151 of the Trade Act. [145] Under the provisions of that section, the responsible House and Senate committees have 45 days after introduction of the resolution to report it; after the resolution is reported, or after 45 days expires without committee action, the full House or Senate has 15 days to vote on final passage. [146]

If the country entering a commercial agreement under section 405 has entered an agreement with the United States regarding the settlement of lend-lease debts, MFN treatment will not apply in periods during which such country is in arrears on its obligations under the lend-lease agreement. [147]

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[140] 19 U.S.C. § 2432(c)(2). The President must renew his waiver authority annually, ibid., § 2432(d).

[141] 19 U.S.C. §§ 2434, 2435.

[142] 19 U.S.C. § 2435(b)(1).

[143] Ibid., § 2435(b)(2)-(10).

[144] 19 U.S.C. § 2435(c).

[145] 19 U.S.C. § 2191.

[146] 19 U.S.C. § 2191(e).

[147] 19 U.S.C. § 2434(b).

However, the Soviet-American lend-lease settlement agreement conditions the Soviet Union's fourth and all subsequent lend-lease payments upon the extension of MFN treatment to the Soviet Union. [148]

## Credit

In addition to making the Soviet Union eligible for MFN treatment, waiver of the Jackson-Vanik amendment would also waive the prohibition (of sec. 402 of the Trade Act of 1974) against Soviet participation in U.S. financial credit or guarantee programs. [149] There are, however, various other statutory provisions, within and without the Trade Act, that regulate the availability of credit for business with the Soviet Union.

*Stevenson Amendment to the Trade Act of 1974.*-- One explicit restriction on the extension of credit for exports to the Soviet Union is contained within the Trade Act of 1974. Section 613 of the Trade Act, commonly referred to as the Stevenson amendment, prohibits any agency of the U.S. Government, other than the Commodity Credit Corporation, from approving any loans, guarantees, insurance, or any combination thereof, in connection with exports to the Soviet Union in an amount exceeding $300,000,000, without prior congressional approval "as provided by law." [150]

*Johnson Debt Default Act.*-- The Johnson Debt Default Act (1934), as amended, makes it a criminal offense within the United States for any "individuals, partnerships, corporations, or associations other than public corporations in which the United States has or exercises a controlling interest through stock ownership or otherwise," to purchase or sell the bonds, securities, or other obligations of, or make any loan to any foreign government (or a political subdivision thereof or any association or organization acting on its behalf) that is in default of its obligations to the U.S. Government, unless that government is a member of both the International Monetary Fund and the International Bank for Reconstruction and Development. [151] Regarding the Soviet Union, this prohibition applies in that the Soviet Union is in default of its debts incurred during World War II under the Lend-Lease Act and of earlier debts incurred by predecessor governments. [152]

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[148] Agreement Between the Government of the United States of America and the Government of the Union of Soviet Socialist Republics Regarding Settlement of Lend Lease, Reciprocal Aid and Claims, Oct. 18, 1972, 23 U.S.C. 2910, 2913, T.I.A.S. No. 7478.

[149] 19 U.S.C. § 2432.

[150] 19 U.S.C. § 2487.

[151] 18 U.S.C. § 955.

[152] The principal additional indebtedness consists of cash advanced by the U.S. Treasury during World War I, under the Liberty Bonds Act. For a more detailed discussion of the Johnson Default Act as it applies to the Soviet Union, see generally, Prince, "The Johnson Debt Default Act: How to Comply with What's Left," Banking Law Journal vol. 98 (1981) p. 147; Starr, "A New Legal Framework for Trade Between the United States and the Soviet Union: The 1972 US-USSR Trade Agreement," American Journal of International Law, vol. 67, (1973) p. 63, 81; Berman, "The Legal Framework of Trade Between Planned and Market Economies: The Soviet-American Example," Law and Contemporary Problems, vol. 24 (1959) pp. 516-17.

Since 1934, the U.S. Attorneys General have issued eight opinions interpreting the Johnson Debt Default Act. The most recent, and most relevant for purposes of this study, were issued on October 9, 1963, and May 9, 1967. The 1963 opinion addressed the act's applicability to the proposed export sale of agricultural commodities to the Soviet Union and Eastern European Bloc countries. [153] Attorney General Robert F. Kennedy opined that federal corporations, such as the Commodity Credit Corporation, are exempt from the act's coverage. He further concluded that neither sales transactions by private American exporters on a deferred-payment basis nor credit transactions involving the assignment of commercial obligations constituted "loans" within the meaning of the act. In 1967, Attorney General Ramsey Clark ruled that the Johnson Act does not prohibit transactions by United States firms or banking institutions for the financing of export sales of particular goods or services. [154] Specifically, he found no distinction between the types of financing previously determined to be permissible and the types of financing arrangements which were the subject of the inquiry before him--lines of bank credit, barter arrangements, and deferrals of payments pending earnings.

*Export-Import Bank Act.*-- The Export-Import Bank of the United States (Ex-Im Bank) is statutorily exempt from the Johnson Default Act. [155] However, other statutory provisions restrict the Ex-Im Bank from loaning money for transactions involving the Soviet Union. In addition to the restrictions imposed by the Stevenson amendment to the Trade Act of 1974 (discussed above), Ex-Im Bank loans are further restricted by the Export-Import Bank Act of 1945, as amended (Ex-Im Bank Act). The Byrd amendment to the 1974 amendments prohibits the Export-Import Bank from providing any loan or financial guarantee, or any combination thereof, in an amount exceeding $40,000,000 for the "purchase, lease, or procurement of any product or service which involves research or exploration of fossil fuel energy resources" in the Soviet Union. [156]

The 1986 amendments to the Ex-Im Bank Act placed a blanket prohibition on any Ex-Im Bank guarantees, insurance, or extension of credit for leases or products purchased by, or for use in, a Marxist-Leninist country. [157] This prohibition does not apply to transactions which the President determines are in the national interest. [158]

*OPIC provisions of the Foreign Assistance Act.*-- The Overseas Private Investment Corporation (OPIC) is likewise statutorily constrained from providing insurance and guarantees for projects in the Soviet Union. Section 620(f) of the Foreign Assistance Act of 1961, as amended, prohibits assistance

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[153] 42 Op. Att'y Gen. 229 (Oct. 9, 1963).

[154] 42 Op. Att'y Gen. 357 (May 9, 1967).

[155] 12 U.S.C. § 635h.

[156] 12 U.S.C. § 635e(b).

[157] 12 U.S.C. § 635(b)(2)(A). The Soviet Union, is, of course, included in the statutory definition of a "Marxist-Leninist country." Ibid., § 635(b)(2)(B)(ii).

[158] Ibid., at § 635(b)(2)(D)(i).

under that act (which includes OPIC funding) for Communist countries, including the Soviet Union. [159]

**Export control**

The Export Administration Act of 1979, as amended, provides the authority for controlling the export of goods from the United States. [160] The policy articulated in the Act is to use export controls "only to the extent necessary" to protect the national security, to further U.S. foreign policy and international obligations, and to protect the domestic economy from the drain of scarce materials. [161]

The act directs the Secretary of Commerce to establish a "commodity control list" (CCL) stating license requirements for exports of goods and technology. [162] The CCL divides the world into seven country groups for licensing purposes. The group to which the destination country belongs

[159] 22 U.S.C. § 2370(f). The provisions of this section may be waived only if the President finds and reports to Congress that--

(A) such assistance is vital to the security of the United States;
(B) the recipient country is not controlled by the international Communist conspiracy; and
(C) such assistance will further promote the independence of the recipient from international communism.

The President also may remove a country from the prohibitions of this section, for any period, if he determines and reports to Congress that such action is important to the national interest. Ibid § 2370(f)(2). The statute specifies that one factor to be weighed is "whether the country in question is giving evidence of fostering the establishment of a genuinely democratic system, with respect for internationally recognized human rights." Ibid. As a corollary, the OPIC provisions themselves explicitly prohibit assistance to any country "which engages in a consistent pattern of gross violations of internationally recognized human rights." 22 U.S.C. §§ 2199(l), 2152(n).

As a further prerequisite to operation in a particular country, OPIC must have entered into an investment program agreement with that country. 22 U.S.C. § 2197(a). After MFN was extended to China, Congress amended the OPIC provisions of the Foreign Assistance Act to allow for OPIC programs in that country. See 22 U.S.C. § 2199(f); Public Law 96-327, 94 Stat. 1026 (1980); S. Rep. No. 840, 96th Cong., 2d Sess., reprinted in 1980 U.S. Code Cong. & Admin. News 2455. Subsequently, OPIC and China signed an agreement permitting OPIC to operate there.

[160] 50 U.S.C., app. §§ 2401-2419 (supp. 1989). The act contains a sunset provision, which has been amended routinely to re-authorize its implementation. Currently, the authority granted by the Act is to terminate on Sept. 30, 1990. Ibid., app. § 2419.

[161] 50 U.S.C., app. § 2402(2) (supp. 1989). See Ibid., § 2404 (National security controls), § 2405 (Foreign policy controls), § 2406 (Short supply controls). The Export Administration Amendments of 1985 include a Congressional finding that--

> The acquisition of national security sensitive goods and technology by the Soviet Union and other countries the actions or policies of which run counter to the national security interests of the United States has led to the significant enhancement of Soviet bloc military-industrial capabilities. This enhancement poses a threat to the security of the United States, its allies, and other friendly nations, and places additional demands on the defense budget of the United States. 50 U.S.C. § 2401(11).

[162] 50 U.S.C., app. § 2403(b) (supp. 1989); 50 App. 2404(c) (supp. 1989).

determines the applicable licensing requirements. [163] The types of transactions regulated include exports from the United States of goods or technical data; exports and reexports from a foreign country of foreign products containing U.S. parts and components or based on U.S. technology; and reexport of U.S.- origin products and technical data from one foreign country to another. [164] The Department of Defense is authorized to review certain applications for national security purposes, while the Department of State reviews specified license applications for foreign policy purposes. [165] The Department of State's Office of Munitions Control also conducts a review under the Arms Control Act of 1976. [166]

Those countries listed as "Communist" countries under section 620(f) of the Foreign Assistance Act of 1961 [167] must be included on the list of controlled countries, unless the President determines that the export of goods or technology to such country would not make a significant contribution to the military potential of that country or a combination of countries that would prove detrimental to the national security of the United States. In determining whether to add or remove a country from the list, the President is directed to take into account a variety of factors, such as the adversity of the country's policies to U.S. national security, and the present or potential relationship with the United States. [168]

The 1985 amendments formally authorized U.S. participation in the Coordinating Committee on Multilateral Export Controls (COCOM), [169] an informal multilateral export-control body consisting of Japan and all NATO countries except Iceland. COCOM members meet periodically to regulate the export control policies of the members with respect to Communist countries, with the aim of insuring that the Communist countries do not obtain products that have significant military uses.

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[163] The Soviet Union is listed in Country Group Y. Also included in that grouping are Albania, Bulgaria, Czechoslovakia, Estonia, German Democratic Republic (including East Berlin), Laos, Latvia, Lithuania, Mongolian People's Republic. Although the countries in Group Y are subject to stringent controls, the countries in Group Z -- Cambodia, Cuba, North Korea, and Vietnam -- are subject to the most stringent export controls.

[164] 15 CFR § 770.3 (a); 15 CFR §§ 774.1-774.9.

[165] 50 app. 2404(a)(1) (supp. 1989); 50 app. 2405(a)(5) (supp. 1989); 15 CFR § 770.13(f).

[166] 22 U.S.C. § 2278 (1982+ supp. III 1985).

[167] See above, discussion in the section entitled "OPIC Provisions of the Foreign Assistance Act."

[168] 50 U.S.C., app. § 2404(b)(1).

[169] 50 U.S.C., app. § 2404(i).

## U.S.S.R. LAWS CONCERNING TRADE WITH THE UNITED STATES [170]

### U.S.S.R. tariff structure

*Applicability of duties*.-- The Soviet Union employs a two-column tariff structure for levying import duties. [171] The schedule lists duties for 317 items, [172] all of which are calculated on an ad valorem basis using CIF prices at the Soviet port of entry. The two columns display most-favored-nation (MFN) and non-MFN tariffs. Soviet MFN tariffs are applied to imports originating in or imported from countries that grant Soviet goods MFN treatment in assessing customs duties, and non-MFN tariffs are applied to all other imports. MFN import duties range from free to 50 percent, for a few items, with the vast majority of items listed at free or very low duties. Non-MFN duties range from free to 70 percent. [173]

*Non-tariff measures*.-- Few sources identify Soviet non-tariff measures. A recent publication of the U.S. Department of State detailing economic policy and trade practices in foreign countries [174] lists inconvertibility of the ruble as a significant barrier to U.S. exports.

*Exemptions from duties*.-- The tariff schedule states that goods originating in and imported from developing countries are exempted from customs duties. The schedule does not, however, define developing countries. Foreign goods in transit across the U.S.S.R. are also exempted from customs duties, as are materials imported into the U.S.S.R. from Soviet institutions abroad. Also exempt from duties are films, videocassettes, and recorded videodisks that receive funding from the Soviet Government and other goods as provided for by the Soviet legislature.

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[170] This section was excerpted from Survey of Views on the Impact of Granting Most Favored Nation Status to the Soviet Union, Report to the Senate Committee on Finance, Investigation No. TA-332-280, USITC Pub. 2251, January 1990, pp. 1-5 through 1-8.

[171] An English translation of the tariff schedule is published in "U.S.S.R.," International Customs Journal, No. 23 (January 1983).

[172] These items fall into the following nine general categories: (1) machines, equipment, and transportation equipment; (2) fuel, raw mineral materials, metals; (3) chemical products, fertilizers, and rubber; (4) building materials and components; (5) raw vegetable and animal materials and products therefrom (other than raw materials for the manufacture of foodstuffs other than those specified hereunder); (6) live animals; (7) raw materials for the manufacture of foodstuffs; (8) foodstuffs; and (9) industrial products of current use.

[173] The Soviet tariff structure is different from that of the United States in that while U.S. tariffs may be viewed as a form of a barrier to trade, the Soviet tariff structure may not. The real barriers to trade often arise from Soviet administrative measures and shortfalls in hard currency.

[174] U.S. Department of State, "Country Reports on Economic Policy and Trade Practices." Report submitted to the Committee on Foreign Affairs, Committee on Ways and Means of the U.S. House of Representatives, and the Committee on Foreign Relations and the Committee on Finance of the U.S. Senate by the Department of State, in accordance with sec. 2202 of the Omnibus Trade and Competitiveness Act of 1988, March 1989.

*Planned new Soviet tariff schedule.*-- The Soviet Government plans to implement a new tariff schedule, based on the Harmonized System, effective January 1, 1991. [175] The schedule reportedly will have two basic levels of duties--MFN (column 1) and non-MFN (column 2). Non-MFN duties, under the new system, are planned to be 2 1/2 times greater than MFN duties. Revised non-tariff measures, the bulk of which are expected to be limitations on Soviet exports, reportedly will also be introduced at that time.

*Prohibited goods.*-- The importation into the Soviet Union of the following goods is prohibited: (1) weapons of war of all kinds and ammunition therefor; (2) narcotic and psychotropic substances, including accessories for smoking opium and hashish, although certain exceptions are provided for; (3) publications, negatives, exposed film, photographs, cinematographic reels, videocassettes, videodisks recorded with cinematographic films, manuscripts, phonograph records and the like, drawings and other printed or illustrated media containing information likely to undermine the political and economic interests of the country, the security of the state, public order, protection of health, and public morals; and (4) other goods prohibited by decisions and regulations of the Council of Ministers of the U.S.S.R. [176]

## The new U.S.S.R. joint venture law

It is only 3 years since the issuance of the "Decree of the Presidium of the Supreme Soviet of the U.S.S.R.," published on January 13, 1987, in which the Soviet Union first recognized the joint venture as a legal entity. [177] That brief decree addressed the issue of taxation of joint ventures, granting them a 2-year tax exempt status and authorizing the Ministry of Finance to grant additional tax exemptions. The decree also provided for the resolution of disputes between joint-venture partners, either in Soviet courts or through arbitration agreed to by both parties to the joint venture, and authorized joint ventures to access the Soviet Union's natural resources.

The U.S.S.R. Council of Ministers Decree [178] elaborated further on the procedures governing the establishment and registration of joint ventures. [179] It contained a provision requiring consultation with all Ministries and government agencies affected by a proposed joint venture and, ultimately, the

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[175] Albert Axebank and Richard Lawrence, "Moscow Threatens Tariff Hike," The Journal of Commerce (Nov. 29, 1989), p. 1A.

[176] The tariff schedule also lists a variety of goods whose export from the Soviet Union is prohibited.

[177] Decree of the Presidium of the U.S.S.R. Supreme Soviet, "On Questions Concerning the Establishment in the Territory of the USSR and Operation of Joint Ventures, International Amalgamations and Organizations with the Participation of Soviet and Foreign Organizations, Firms, and Management Bodies," No. 6362-XI (Jan. 13, 1987).

[178] The U.S.S.R. Council of Ministers is the senior executive and administrative body of the Soviet Union, chaired by the prime minister, with several deputy ministers and nearly 100 deputy ministers.

[179] Decree of the U.S.S.R. Council of Ministers "On the Establishment on the Territory of the U.S.S.R. and Operation of Joint Ventures with the Participation of Soviet Organizations and Firms from Capitalist and Developing Countries," No. 49 (Jan. 13, 1987).

approval of the U.S.S.R. Council of Ministers. This decree also included measures that described the legal documents necessary to enter into a joint venture, as well as the mode of conducting daily operations. The decree also contained a provision limiting a foreign partner's ownership interest to 49 percent and the requirement that the Chairman of the Board, Director General, and management be Soviet citizens. The decree confirmed the granting of the 2-year tax holiday to joint ventures and the authority of the Ministry of Finance to grant additional tax breaks. **Appendix A** provides a diagram of changes to the Soviet foreign trade administrative structure.

Since the issuance of the initial decrees, the Soviet legal environment governing joint ventures has continued to evolve. A September 1987 Resolution of the Communist Party of the Soviet Union (CPSU) simplified some of the legal requirements for establishing a joint venture. [180] This decree, for the first time, established the authority of the various Ministries and departments, as well as the Council of Ministers of the Union Republic to independently approve the establishment of joint ventures. The resolution also streamlined the procedures for registration of joint ventures, expanded access to foreign currency credits, and clarified the scope of the 2-year tax exemption described in the January 1987 decrees.

In December 1988, the U.S.S.R. Council of Ministers further amended the joint venture laws in an effort to address those issues that they believed were most troublesome to the Western business community. [181] Among the important changes that this decree makes is the further decentralization of the authority for entering into joint venture agreements. Under the December 1988 decree, the consent of the local ministry or other entity that supervises the Soviet partner alone is sufficiently legally binding to permit a joint venture enterprise to commence. This decree also made fundamental changes in the daily governance of joint ventures, allowing the Chairman of the Board and the Director General to be foreigners and removing the prohibition on ownership by foreigners of a greater-than-49 percent interest. The requirement that the board must consent unanimously to all "fundamental" business issues, however, guarantees a continuing strong voice for Soviets in the management of joint ventures, no matter how small the ownership percentage of the Soviet partner.

The December 1988 decree [182] also established the right of all enterprises, cooperatives, and associations to import and export goods directly themselves, rather than to deal through a Foreign Trade Organization, except for those products in which the Council of Ministers specifically restricted

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[180] Resolution of the CPSU Central Committee and the Council of Ministers of the U.S.S.R., "On Additional Measures to Streamline Foreign Economic Activity in the New Conditions of Economic Management," No. 1074 (Sept. 17, 1987).

[181] U.S.S.R. Council of Ministers Resolution, "On Further Developing the Foreign Economic Activity of State, Cooperative, and Other Public Enterprises, Association and Organizations," Ratified by the U.S.S.R. Council of Ministers, Dec. 2, 1988.

[182] The Resolution of the U.S.S.R. Council of Ministers, "On the Regulation of Various Types of Activity of Cooperatives in Accordance with the Law of the U.S.S.R. 'On Cooperatives'" (Dec. 29, 1988).

trade. [183] Several participants confirmed that more than 8,000 entities are now authorized to do business directly with foreign companies. The 1988 decree and its implementing regulations are probably the most important to the understanding of the legal environment in which United States-U.S.S.R. joint ventures currently operate.

In a further effort to create a new economic environment, of which joint ventures are expected to be a major component, the Soviet Government is reportedly considering additional legislative initiatives, which may be proposed in the near future. [184] Proposed topics for such initiatives include private property rights, both personal and commercial; taxation; environmental protection; cooperatives; the economic independence of the republics; pensions and benefits; banking practices; and continued modernization of the ministries. [185]

The experience of American businesses with these new joint-venture laws remains limited. In fact, as of June 1989, there were only approximately 1,000 registered joint ventures between the Soviet Union and all other countries, [186] of which approximately 200 are thought to be operational. [187] The rate of establishment of joint ventures has been increasing since the Soviet Union first permitted joint ventures 3 years ago. Only between 1 and 9 joint ventures per month were established in 1987, whereas 5 to 17 per month were registered in the first 10 months of 1988. [188] The number of newly registered joint ventures increased to 30 and 48 in November and December 1988 respectively. [189] The first 3 months of 1989 saw the pace of growth continue, as 41 joint ventures were registered in January, 45 in February, 53 in March, and 80 in April. [190] **Appendix C** gives a listing of the first 100 U.S. joint ventures in the Soviet Union, along with statistical information on Soviet joint ventures.

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[183] Although the May 1989 decree regulating foreign economic activity by Soviet citizens is beyond the scope of this report, it is also a fundamental piece in the changing perspective with which the Soviet Government views foreign trade. U.S.S.R. Council of Ministers Decree, "Concerning the Development of the Economic Activity of Soviet Organizations Abroad," (Decree 412) (May 18, 1989).

[184] Statement by Leonard Vid, Deputy Chairman of the State Planning Committee of the U.S.S.R., Conference on "The Soviet Joint Enterprise Decree: Law and Structure", Nov. 13, 1989, jointly sponsored by the Russian Research Center of Harvard University and Heron, Burchette, Ruckert & Rothwell, (hereinafter "Conference of Nov. 13, 1989").

[185] Ibid.

[186] Statement by Marshall Goldman, Director of Russian Research Center of Harvard University.

[187] Statement by Yuri Erzhov, Deputy Director of the Institute of External Economic Relations, State Foreign Economic Commission, Conference of Nov. 13, 1989.

[188] "Changes Made in Soviet Joint Venture Law, More in the Works, Soviet Tells Conference," Regulation, Economics & Law (BNA), No. 93 (May 16, 1989) p. A-9-10 .

[189] Ibid.

[190] Ibid.

About 30 percent of all existing joint ventures are in the services sector. [191] The limited nature of the capital investment made by the vast majority of foreign joint-venture partners further represents the limited scope of joint-venture activities currently being undertaken in the Soviet Union. As of June 1989, the vast majority of joint ventures had a capital investment of less than $5 million. [192]

Through June 1989, West Germany had the most joint ventures with the Soviet Union, with a total of 89 registered. Finland, with 71 registered joint ventures, also had more than the United States. As of July 18, 1989, U.S. companies were partners in 64 registered joint ventures, [193] making it the country with the third most joint ventures in the Soviet Union. Italy, Austria, and the United Kingdom were fourth, fifth, and sixth, with 36, 35, and 33 respectively. [194] One Soviet source advised the staff that the number of United States-Soviet joint ventures had increased to 97 as of October 1, 1989, although this number was still reportedly third, after West Germany, with 153, and Finland, with 110. [195]

The rate of growth of Soviet joint ventures with U.S. partners has been similar to that of all countries' Soviet joint ventures. Although U.S. companies were partners in only three registered joint ventures in 1987, Americans registered 10 joint ventures in 1988 and 51 through July 18, 1989, of which 29 were registered between April and June of that year. [196] Further, although United States-Soviet joint ventures have undertaken such varied activities as the sale of imported goods and the production of building materials, the majority of American joint ventures are in the services sector. This latter group mostly involves the servicing of computer hardware and software but also includes consultation on marketing and advertising needs, consultants and lawyers to assist foreign companies considering business opportunities in the Soviet Union, management consultants, hotel operations, and tourism-related services.

Like companies from other countries, most American companies have severely limited their capital investments in Soviet joint ventures. The investment by American companies in joint ventures with the Soviets has fallen mostly in the range of investment of $100,000 to $500,000 or $1 million to $5 million. [197] Fewer than 20 percent of the United States-Soviet joint ventures have involved investment of more than $10 million by American companies. [198]

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[191] Statement by Yuri Erzhov, Conference of Nov. 13, 1989.

[192] USITC, MFN Survey, USITC Pub. 2251, Jan. 1990, appendix K.

[193] Statistics provided by United States-U.S.S.R. Trade and Economic Council.

[194] Ibid.

[195] Data obtained from the State Foreign Economic Commission of the U.S.S.R. Council of Ministers, Oct. 19, 1989.

[196] Statistics provided by U.S.-U.S.S.R. Trade and Economic Council.

[197] Ibid.

[198] Ibid.



**1-100**

The largest join venture project to date was recently announced by Combustion Engineering. [199] On November 28, 1989, an agreement was announced by Combustion Engineering and a Finnish company, Neste Corp., to join with Tobolsk Petrochemical Company, a subsidiary of the Ministry of Chemican and Oil Refining Industries, in building a complex at Tobolsk to turn Soviet oil and natural gas into a variety of petrochemicals, including propylene, polypropylene, and thermoplastic elastomers. [200] It is expected that the initial phase of this project will cost $2 billion, although the partners plan to expand the complex later. Initially, Combustion Engineering and its Finnish partner will only own 15 percent of the joint venture, but the agreement permits the two companies to increase their equity participation at a later date. [201]

Even in this project, however, the role of both the American and the foreign partner falls primarily in the services sector. Combustion Engineering will be responsible for overall project management, including design, procurement, and foreign currency financing, while its Finnish partner will be responsible for marketing the share of the petrochemical production to be sold outside the Soviet Union. The plan is to export 60 percent of the output during the first 4 or 5 years the complex is in operation in order to service debt incurred in foreign currencies but to reduce exports significantly after that.

Combustion Engineering's limited equity participation is not typical of the usual ownership distribution in United States-Soviet joint ventures. Although the U.S. partner holds the minority position in most such ventures, [202] this may be because Soviet law required this relationship from January 1987-December 1988. Further, the American partner holds a 49-percent interest in approximately half of the approximately 38 joint ventures in which the American partner has minority ownership. [203] Once the legal limitation barring the foreign partner from having a greater-than-49-percent interest was dropped, the 50:50 arrangement replaced the 49:51 ratio as the most common arrangement. [204]

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[199] "Foreign Companies Flood Soviet Union's Opening Gates," Washington Post, Nov. 29, 1989.

[200] Ibid.

[201] Ibid.

[202] Statistics obtained from United States-U.S.S.R. Trade and Economic Council.

[203] Ibid.

[204] Ibid.

<u>**Export controls**</u>

Soviet export controls break down into two categories. Controls that aim at restricting the exportation of commodities--particularly consumer goods--in short supply; and controls that aim at protecting intellectual property, enforcing national security policies, and preserving art treasures. Controls under the first category amount to export quotas, restricting foreign sales beyond a certain quantity limit. [205] Controls under the second category intend to keep a close central tab upon the exportation of inventions and other results of research. These controls formally prohibit any shipment abroad of weapons, nuclear items, militarily useful technology, narcotics, poisons, antiques, and "other objects of significant artistic, historical, scientific or other cultural interest." [206]

The overall Soviet export list contains 28 categories. These include fuels, ores, and precious metals; a variety of basic chemicals, grain, cement, cotton; and "inventions and other results of research." [207] Soviet officials indicated that currently 58 organs can issue export licenses in the Soviet Union. The Ministry of Industry and the Council of Ministries at the Republic level are the principal authorities involved in export licensing.

**Appendix D** provides a chronology of U.S.-U.S.S.R. trade between 1974-1984.

[205] A worsened balance between the population's money balances and the availability of consumer goods in the Soviet Union had necessitated the introduction of stiff new restrictions on exporting consumer goods during 1989. (Decree No. 203 of the U.S.S.R. Council of Ministers, Mar. 7, 1989.)

[206] Philip Hanson: "The Soviet Export Control List," RFE/RL, <u>Report on the U.S.S.R.</u>, Vol. 1, No. 15, April 1989.

[207] Ibid.

# Chapter 2

## *Soviet Economic Policy Directions*

## ECONOMIC POLICIES DURING 1985-1989

By 1985, Soviet leaders knew that the country's economic problems posed a threat to its domestic tranquility and superpower status. [1] During 1976-85, the Soviet economy registered a slower economic growth than during any decade since the War, and efforts to improve economic performance after Brezhnev's death in 1982 proved to be inadequate. [2] Strong and open criticism of traditional Soviet economic policies and major efforts for renewal began with the election of M.S. Gorbachev as General Secretary of the CPSU Central Committee in March, 1985. [3]

Following his election, Gorbachev explained in a number of speeches the need for economic renewal. [4] He proposed the creation of a high-technology, consumer-oriented society with a democratically-run, dynamic, innovative economy. [5] To achieve this goal, Gorbachev suggested a reallocation of resources from the economy's stagnant sectors into those that would meet consumer demands--mostly into high-technology manufacturing. He further suggested that the country's economic system be decentralized to free individual and enterprise initiatives--a precondition for making the system more efficient--and that the Soviet Union would have to be more active in the international economy. [6] He believed that a synergistical interaction among improvements in the economic structure, management, and the process of overall social democratization was vital to the reform's realization and

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[1] See "Prepared Statement of the Central Intelligence Agency," in U.S. Congress, Joint Economic Committee, Economic Reforms in the U.S.S.R., (Washington, D.C., U.S. Gov't Print Off., 1988), pp. 213, 214.

[2] According to CIA estimates, the Soviet Union's GNP grew by just over 2 percent per year during 1976-85. The technology gap with the West widened during that period, increasing the economic burden of military spending. The consequent slowdown in the improvement of consumer welfare, in turn, increased the gap in living standards with the West. A malaise, characterized by bureaucratic corruption, low worker morale, and the average citizen's growing alienation from the system, spread through Soviet society. Both the appeal of the Soviet economic model abroad and the Soviet Union's ability to provide economic aid to other nonmarket economies declined. For details see "Prepared Statement of the Central Intelligence Agency," in U.S. Congress, Joint Economic Committee, Economic Reforms in the U.S.S.R., (Washington, D.C., U.S. Gov't Print Off., 1988), pp. 213-240, and USITC, 45th Quarterly Report to the Congress and the Trade Policy Committee on Trade Between the United States and the Nonmarket Economy Countries During 1985, p. 64, hereinafter 45th Quarterly Report.

[3] See Ed. A. Hewett, Reforming the Soviet Economy, Equality versus Efficiency (Washington, D.C.: The Brookings Institution, 1988) pp. 450-462, and Herbert S. Levine, "Gorbachev's Reform Program: Act II" Joint Economic Committee, Economic Reforms in the U.S.S.R., (Washington, D.C.: U.S. Government Printing Office, 1988), pp. 450-62.

[4] 45th Quarterly Report . . ., p. 64.

[5] For details see Hewett, Reforming the Soviet Economy, and Levine, "Gorbachev's Reform Program: Act II."

[6] For details see Hewett and Levine, U.S. Department of Commerce, U.S.S.R. Division, Editorial Research Reports, February, 1989, pp. 78, 79, and FBIS, Feb. 21, 1990, pp. 111. For more on this subject, see also Chapter 3.

that this interaction would set economic institutions and the individual on the path of self-improvement, accelerating the process of social and economic transformation. [7]

Many top political and economic leaders were replaced as the debate over economic reform, which started under Andropov and Chernenko, expanded and intensified. [8] Expressions like glasnost (openness) and perestroika (restructuring--a catchword for economic reform) became household words, even outside the Soviet Union, in a widening public debate over economic and social issues.

The leadership indicated that the period of the 12th five year plan (12th FYP), (1986-90) would serve as a preparatory stage for the reform. [9] The 12th FYP codified targets and prescriptions for the modernization of the machine building sector, considered crucial in the overall scheme of economic renewal. [10] The plan's growth targets mirrored the leadership's belief that the proper course on which it had embarked would re-accelerate economic growth already in the earliest stage of the reform process. [11] **Appendix E** gives a summary of Gorbachev's reform initiatives.

The 12th FYP called for a 4.1-percent annual increase in national income and a 4.6-percent increase in labor productivity. Investment in the machine building sector was to increase by 80 percent, and the rate of retirement of old machinery was to be doubled. [12] A 23-percent increase in the investment of the agro-industrial complex and improvements in housing were also included. Real income per capita was to grow by an annual average of 2.7 percent. Although this growth in per capita income was far below that in the early 1970s, it significantly exceeded that of the previous 5-year period. [13] Capital for the FYP's ambitious objectives was to be obtained by channelling resources from the rest of the economy into the machine building sector and other key areas slated for fast

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[7] See address by Mikhail Gorbachev during the Washington Summit on Dec. 8, 1987, "Mikhail Gorbachev at the Summit," Richardson, Steriman & Black, New York, 1988 p. 109; and Hewett, Reforming the Soviet Economy, p. 306.

[8] For a description of debate over economic policies during the Andropov and Chernenko periods, see Hewett, Reforming the Soviet Economy, pp. 257-302. Also see David A. Dyker, The Soviet Union Under Gorbachev: Prospects for Reform (New York: Croom Helm, 1987), pp. 58-93.

[9] Hewett, Reforming the Soviet Economy, pp. 309-311. Although at the outset, the new leadership designated 1985-1990 as the "pre-reform" period, all measures aimed at the final goal of a more market-oriented economic system became termed as "economic reform measures" or "economic reforms," and the sum total of these as "economic reform" or "perestroika."

[10] Hewett, Reforming the Soviet Economy, p. 313.

[11] See Levine, "Gorbachev's Reform Program: Act II," pp. 450, 451, and John Tedstrom, "The Soviet Economy: Planning for the 1990s," RFE/RL, Report on the USSR, Dec. 22, 1989, p. 1.

[12] For a further discussion of Soviet investment policy under Gorbachev, see Robert E. Leggett, "Soviet Investment Policy: The Key to Gorbachev's Program for Revitalizing the Soviet Economy," in Gorbachev's Economic Plans, Vol. 1, Joint Economic Committee, U.S. Congress, Nov. 23, 1987, pp. 236-256.

[13] For details on the 12th FYP see Hewett, Reforming the Soviet Economy, pp. 19, 162-163, 306-307, 315-322; and Levine, "Gorbachev's Reform Program: Act II," pp. 450-452.

development.[14] In a departure from past development strategy, the plan prescribed a shift from constructing new production facilities to renovating and reequipping old ones.[15]

## Preparations for the reform: 1985-1988 [16]

During 1985, experiments with the decentralization of enterprise management expanded. The Government formally promised to gear the country's economy towards satisfying consumer needs and promulgated a number of decrees aimed at expanding production and services in the consumer sector. Several government agencies responsible for agricultural policy and production were consolidated into the "State Agroindustrial Committee" (Gosagroprom). Preparations were begun for the decentralization of the foreign trade system.[17]

During 1986, a new wage system was introduced, tying bonuses to performance and widening pay differentials. Administrative reorganizations were carried out and new rules aimed at increasing the decision-making authority and financial autonomy of industrial enterprises and agricultural cooperatives were formulated. Industrial ministries were divested of some of their responsibilities in the operational management of enterprises.[18] Legislation was passed to encourage private economic activity. New administrative rules increased the independence of kolhozes (agricultural cooperatives) and sovhozes (state farms) from supervisory organs. Wholesale trade among enterprises and cooperative activity expanded. The Ministry of Foreign Trade lost its monopoly over foreign trade operations and a number of government agencies and 77 enterprises obtained the right to export and import and to keep some of their hard currency earnings.[19] The Soviet Union sought observer status in the GATT.

During 1987, the leadership spelled out in greater detail the reform's objectives and an extensive legislative program was adopted to reorganize economic management.[20] The program was meant to clarify the role of various government bodies in the reform process, to streamline the central

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[14] Hewett, Reforming the Soviet Economy, pp. 306, 307, 315, 316.

[15] Ibid.

[16] Unless otherwise indicated, this journal of events is based on Hewett, Reforming the Soviet Economy, pp. 360-363; and information obtained from the U.S.-U.S.S.R. Trade and Economic Council, Feb. 21, 1990.

[17] For more on this subject see Chapter 3.

[18] 49th Quarterly Report . . ., p. 59.

[19] For more on this subject see Chapter 3.

[20] In his speech to the Plenum of the Central Committee in July 1987, Gorbachev spelled out more clearly than ever before the policies designed to reform the Soviet economy. His program called for an increase in entrepreneurial freedom and labor mobility, a decrease in subsidies and a trimming of the State's economic apparatus. Prices, determined largely by market forces, would have a major role in redirecting the Soviet economy's emphasis from its predominantly heavy-industry orientation to a more decentralized, consumer oriented, high-tech economy. 53rd Quarterly Report . . ., pp. 64, 65.

apparatus of economic management, and to step up preparations for price reform. [21] The planning activities of central state organs and ministries were reduced. A new law on enterprises was adopted, giving firms greater leeway in determining their input and output mixes and requiring the election of top enterprise management by the worker collectives for 5 year terms, in multicandidate contests. The scope of cooperative activities was extended to cover consumer goods production and a number of services. Steps were taken to organize a new banking system. The pressure to increase the independence and financial autonomy of agricultural cooperatives was kept up. The government allowed the establishment of joint ventures with Western partners and, later during the year, refined conditions to make such deals more attractive for Western businesses. The introduction of currency convertibility among members of the CMEA was envisioned.

During 1988, efforts to decentralize economic management and the policy of reallocating resources from the heavy industry to the consumer sector continued. [22] About 40 percent of the country's 138 million work force was required to begin functioning under a new profit-and-loss accounting system, and to be self-financing. [23] (The combination of these two requirements will be referred to hereafter as "khozratschet basis"). The formation of cooperatives for the production of consumer goods and services was authorized. The banking system was expanded and new decrees stipulated the replacement of some of the central allocation of investment funds with bank credit. Non-repayable credit to enterprises ceased. Cooperatives were granted the right to enter into joint ventures and the number of industrial associations and enterprises with independent foreign trade rights reached 200. The direct contacts of Soviet industrial associations and enterprises with the world markets increased, accounting for 25 percent of the Soviet Union's total exports and 44 percent of its total imports during 1988. [24]

## Preparations mix with stabilization efforts: 1989

According to the CIA, the Soviet economy went into a recession (decline in production adjusted for inflation) during 1989, making the overall growth targets of the 12th FYP, including the targets for

[21] The basis for this legislative program was a document called "Basic Theses for the Radical Restructuring of Economic Management," approved by the Plenum of the CPSU Central Committee in June, 1987. (Hewett, Reforming the Soviet Economy, p. 325.)

[22] 57th Quarterly Report . . ., p. 22.

[23] Firms that switched to the khozraschet-basis had to choose between two variants of the new system. Under the first variant, growth in an enterprise's wage fund is tied to the level of overall production, whereas under the second variant, it is tied to the level of profit. Variant 2 is considered more risky and market-oriented than variant 1. See 57th Quarterly Report . . ., p. 23, footnotes 1 and 2.

[24] 57th Quarterly Report . . ., p. 24.

the growth of productivity and real income, unattainable. [25] Most prominent among the factors that led to such a severe deterioration in the country's economic situation since 1985 were the economic costs of the Chernobyl nuclear disaster and the Armenian earthquake, ethnic unrest and strikes, and mistakes in the implementation of reform measures which undermined worker morale and bloated the budget deficit. [26] The major symptom, as well as measure of this deterioration, was the growing difference between the population's cash balances (savings in various forms) plus enterprise ruble balances--including inter-enterprise claims--and the value of commodities and services available for purchase on the domestic market. [27] This difference was termed the "ruble" or "monetary overhang."

The 1989 national economic plan--prepared during 1988--tried to halt the growth of ruble overhang. [28] In a departure from the traditional Soviet policy that regarded capital investment and defense as the economy's priority sector and the consumer sector as secondary, the 1989 plan projected a faster growth in consumer goods than in capital goods production. [29] Although the output of consumer goods indeed grew faster during 1989 than the output of capital goods, the growth of money incomes accelerated from 9.2 percent in 1988 to 12.9 percent in 1989, and the purchasing power that had increased by 41 billion rubles in 1988 increased by 64 billion rubles in 1989. [30] The ratio between the outstanding ruble purchasing power and goods and services available to the public was 5.6 at year-end 1989, and unsatisfied demand amounted to 165 billion rubles. [31] Inflation--6.2 percent in 1986 and 7.3 percent in 1987--accelerated, from 8.4 percent in 1988 to 10-11 percent at year-end 1989. [32] Problems with labor discipline reportedly increased during 1989 [33] and unemployment reached "5 to

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[25] PlanEcon Report, Sep. 1, 1989, p. 1 and Feb. 21, 1990, pp.1 and 3. According to Soviet statistics, the country's real GNP grew by 2.4 percent during 1989. (FBIS, Jan. 29, 1990, p. 101.) Thus, Western and Soviet analysis disagree with each other on the subject of inflation-adjusted Soviet economic growth during 1989. Western analysts believe that the acceleration in Soviet consumer goods production during 1989 did not compensate for a real decline in the output of the defense and investment sector. For details on 1989 Soviet economic performance see forthcoming 61st Quarterly Report . . .

[26] See articles by Hewett, "Perestroika- 'Plus': The Abalkin Reforms," PlanEcon Report, Dec. 1, 1989, pp. 1, 2.) and by N.P. Shmelev, noted Soviet reform economist (FBIS, Nov. 6, 1989, pp. 95-97.) For an assessment of the mistakes made in implementing the reform during 1985-1989, see interview with Deputy Premier L. Abalkin, FBIS, Feb. 27, 1990, pp. 68, 69.

[27] Muller, "Economic Reform in the Soviet Union," p. 57.

[28] See Tedstrom, "The Soviet Economy: Planning for the 1990s," p. 2.

[29] Ibid., pp. 1-7.

[30] FBIS, Jan. 25, 1990, p. 101, and January 29, 1990, p. 101.

[31] FBIS, Dec. 14, 1989, p. 125, and Dec. 20, 1989, p. 123.

[32] FBIS, Dec. 14, 1989, p. 125. According to Soviet statistics, the annual rate of inflation was 7.5 percent during the full year of 1989 (Business Eastern Europe, Feb. 12, 1990, p. 53.) But some reports indicate that during early 1990, the annual rate of inflation for some consumer goods was as high as 17-20 percent. (Tedstrom, "Goskomstat Report for 1989: An economy out of control," RFE/RL, Report on the USSR, Feb. 16, 1990, p. 3.)

[33] FBIS, Jan. 18, 1990, p. 133.

6 million." [34] Work morale deteriorated and racketeering increased. [35] The need for emergency measures became clear. [36]

During the second half of 1989, a new cabinet-level commission in conjunction with the Supreme Soviet began to prepare an economic stabilization program. [37] The program was set forth in a number of speeches by senior Soviet officials and in the national economic plan and draft budget for 1990. The program's two main goals were to reduce the growth of the monetary overhang by increasing the supply of consumer goods and reducing the budget deficit, and to assure a reasonably equitable distribution of basic necessities as well as to improve the social infrastructure to mitigate hardship and defuse social unrest. [38]

To achieve the first goal--reduction in the monetary overhang--the government shifted resources from the defense and investment sector into consumer goods production and increased the share of State orders in industrial enterprise capacity at the expense of producing for the market. [39] It instituted further controls over exports--mainly through licensing--aimed at keeping certain items in short supply in the country and avoiding the exportation of goods which are also imported, such as linen fabrics and bed linens. [40] The government accelerated the reduction of the budget deficit. Instead of the originally planned reduction from 99 billion rubles in 1988 to 92 billion rubles in 1989, the deficit was reportedly reduced to 60 billion rubles. [41] On the expenditure side, cuts were implemented in defense and investment, and on the revenue side, taxes on enterprise wage funds were increased. Preparations to issue government bonds began. [42]

To achieve the second goal--an equitable distribution of the basic necessities--the government instituted controls on the prices of bread, meat, fish, butter, milk, and other foodstuffs, and clothing

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[34] Quote taken from a panel discussion on unemployment among Soviet commentators, published in the Soviet newspaper Izvestya on Jan. 6, 1990. (FBIS, Jan. 17, 1990.) For details on Soviet human resources see Chapter 1.

[35] "Speculators" income amounted to an estimated 1.3 billion rubles during 1989. FBIS, Jan. 18, 1990, p. 133.

[36] See articles by Hewett, "Perestroika-'Plus'" p. 2; and Tedstrom, "Maslyukov Presents Emergency Economic Program," RFE/RL, Report on the USSR, Aug. 18, 1989, p. 6.

[37] Ibid.

[38] For an analysis of the stabilization plan, see article by Philip Hanson, "Economic Stabilization Plans," RFE/RL, Report on the USSR, Oct. 7, 1989, pp. 9-12.

[39] Ibid.

[40] The decree adopted by the Supreme Soviet on November 20, 1989 strengthens an earlier resolution by the Council of Ministers to limit the exportation of consumer goods. See FBIS, Jan. 11, 1990, pp. 101, 102. For details of the export-licensing system introduced during 1989, see FBIS, Dec. 5, 1989, pp. 94, 96.

[41] Hanson, "Economic Stabilization Plans," p. 11.

[42] Ibid.

and footwear for children. [43] Ceiling prices were set on fruits and vegetables, as well as on contract prices negotiated among enterprises. [44] Some of the resources liberated from the defense and investment sector were allocated to build and renovate residential units, schools, and hospitals. The introduction of a general scheme of rationing was recommended. [45]

The preparatory work for the economic reform continued during 1989. The role of branch ministries in the operative management of industrial enterprises was weakened, giving an impetus to the formation of a variety of regulated business combinations. [46] By year-end 1989, industrial enterprises formed 69 amalgamations, 27 joint-stock companies, 80 consortia, and 59 concerns. [47] These combinations, operating on the khozraschet basis, are allowed to engage in foreign trade and establish joint ventures. During 1989, an auction was held for hard currency and for capital goods on the wholesale level. [48] The number of industrial firms operating under a more market-oriented version of khozraschet basis increased. The country's agricultural apparatus was once again reorganized. [49] Gosagroprom, which had been responsible for agricultural policy and performance since 1985, was abolished and its functions were assumed by a commission on the national level, and by various government agencies on the local level. [50] The government encouraged the internal reorganization of collective and state farms to enhance the individual farmer's role in production and marketing decisions. [51] In some areas, farmers were offered hard currency payments for above-the-plan sales of grains to the State. [52] The number of non-agricultural cooperatives reached 130,000, employing about 3 million people. [53] Goods-producing cooperatives were allowed to engage in foreign economic activities.

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[43] Ibid., pp. 9-12.

[44] Contract prices for new, non-food items cannot, as a rule, be confirmed with a surcharge of more than 30 percent of the state retail price--i.e., the mark-up compared to the state price is being regulated. FBIS, Dec. 8, 1989, p. 116, 117.

[45] Hanson, "Economic Stabilization Plans," pp. 9-12, and FBIS, Feb. 22, 1990, pp. 99, 100.

[46] Business Eastern Europe, Feb. 12, 1990, p. 50.

[47] Ibid. Amalgamation usually means the joining together of two or more companies into a newly formed company. Joint stock company indicates the co-ownership of assets on a legal basis that combines elements of partnership and corporation. Consortium is the temporary partnership of financial, banking organizations to finance a joint project. Concern denotes a business combination for commercial rather than for manufacturing purposes.

[48] FBIS, Jan. 23, 1990, p. 97.

[49] USITC, International Economic Review (IER), 1989, October, p. 6.

[50] Ibid.

[51] Ibid.

[52] For details see article by Christian J. Foster, "Convertible Currency Payments for Above-Average Sales of Farm Produce," RFE/RL, Report on the USSR, Nov. 10, 1989, pp. 13-15.

[53] See Interview with Hewett, IMF Survey, Nov. 27, 1989, p. 364.

Towards the end of the year, the economic reform program for the 1990s--known as the "Abalkin Program"--was presented to the public and passed into law by the Congress of the Peoples' Deputies. [54] The stabilization program was also further elaborated. The two are scheduled for a parallel implementation during the first half of the 1990s. [55] (See section "Economic Policies During the 1990s.")

## Assessments

Despite the re-centralization measures under the stabilization program, Western observers involved in doing business with the Soviet Union believe that the State's grip over economic activities was much looser at the end of 1989 than it had been before 1985. [56] Most analysts think that the morass of problems that beset the reform process during 1985-1989 may be attributable to the side-by-side functioning of market and nonmarket methods of economic management. [57]

As of early 1990, the Soviet Government admitted that the reform's implementation had proved to be a far harder task than it originally appeared. [58] Nevertheless, the leadership pledged full commitment to pursue the objectives of radical economic reform and the stabilization program in order to prevent a return to the pre-1985 methods of economic management "that discredited themselves and brought the country to stagnation and to lag behind the developed countries of the world." [59]

Soviet public opinion of economic policies during 1985-1989 reflects both a disappointment that the reform has not improved living standards and an understanding that there is no alternative to continuing it. [60] An article in the daily press by a leading economist stated:

> "We must make up our minds to make difficult changes and do it today. Yes, the transfer to a market economy involves a worsening situation in the national economy and a fall in the standard of living. We have not yet reached the lowest point of this decline. The situation will worsen anyway, but reforms promise a slow recovery whereas the delaying of them threatens the economy with a lethal outcome." [61]

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[54] See Hewett, "Perestroika-'Plus'" p. 2.

[55] See Tedstrom, "The Soviet Economy: Planning for the 1990s," pp. 1-7.

[56] See, for example, Business Eastern Europe, Feb. 12, pp. 49, 51.

[57] For example, the Deputy Director of the U.S.S.R. Academy of Sciences Central Economic-Mathematical Institute said that as a result of reform measures implemented during 1985-1989, the sale of final outputs became organized according to market laws, while the basic inputs were still being supplied through the system of central planning. The State lost direct control over prices, although indirect control through market prices had not yet been established. FBIS, Nov. 17, 1989, p. 38.

[58] See, CPSU Central Committee Platform, FBIS, Feb. 14, 1990, p. 45.

[59] Ibid.

[60] For the results of an extensive Soviet poll on public attitudes toward the reform, see FBIS, Dec. 29, 1989, pp. 82, 83.

[61] FBIS, Jan. 26, 1990, p. 101.

But public dissatisfaction and fear of losing economic security has left a considerable space for agitation by some high-level bureaucrats and ideologues. [62] For example, the chief of the Economic Theory Department of the U.S.S.R. State Planning Committee made the following statement:

> "The impatience of keen perestroika supporters will soon be rewarded: Any moment now, the deciding final chord will resound and, to their delight, the mass breakdown of the existing economic system, which will be so torturous for the people, will start. A breakdown that will bring losses several times greater, in economic terms, than the losses from the Great Patriotic War. A breakdown fraught with great social and political shocks, the disintegration of society into the super-rich and the proletariat who will sell their labor on the manpower market." [63]

In reference to the country's workers, the article concludes: "If, of course, they agree to take that road." [64]

## Effects on U.S.-Soviet economic relations

New Soviet economic policies during 1985-1989 created a new thinking in Soviet foreign policy which, in turn, led to a significant improvement and expansion in overall U.S.-Soviet relations, including bilateral economic relations. [65] These bilateral economic relations may be classified into three categories: (1) government-to-government economic relations; (2) U.S. business relations with the Soviet Union, and; (3) bilateral trade. [66]

*Government-to-Government economic relations*.-- During 1985, the two sides resumed high-level dialogue on trade and commercial relations: The Joint U.S.-U.S.S.R. Commercial Commission (JCC) had its eighth session--the first session since 1978--in which the United States sought improved access to the Soviet market. [67] The two countries reactivated their bilateral accord on cooperation in agricultural technology and agreed to resume direct air service between Washington, D.C. and Moscow.

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[62] See articles by Alexander Rahr, "Gorbachev Faces Revolt in Party Apparatus," Report on the USSR, RFE/RL, Aug. 11, 1989, pp. 7-10, and by Elizabeth Teague, "Worker Unrest in 1989," Report on the USSR, RFE/RL, Jan. 26, 1990, pp. 12-13.

[63] FBIS, Jan. 22, 1990, pp. 120, 121.

[64] Ibid.

[65] U.S. Secretary of State James Baker: "President Gorbachev has repeatedly pointed to the links between domestic reform and the new thinking in foreign policy, saying just a few months ago, '...there exists an indissoluble link between the new foreign policy and perestroika within the country.'" Secretary Baker's address prepared for delivery before the Foreign Policy Association in New York City on Oct. 16, 1989. Department of State Bulletin, December 1989, p. 11.

[66] In addition to improvements and expansion in overall U.S.-Soviet relations, economic growth that had taken place in both countries, as well as fluctuations in economic performance, may have also affected some aspects of bilateral economic relations during 1985-1989.

[67] 45th Quarterly Report . . ., pp. 40, 41.

The U.S. Court of International Trade dismissed (for lack of standing, and as a moot action) a suit seeking to ban the importation from the Soviet Union of certain products allegedly made by forced labor. [68]

During 1986, at the ninth session of the JCC, U.S. and Soviet officials agreed on steps to be taken by the two Governments to promote direct contacts between U.S. and Soviet firms. [69] For the first time in 7 years, the U.S. Government participated in a Soviet trade fair. [70] The U.S. policy of denying licenses for export to the Soviet Union of technical data related to oil and gas equipment exploration and production was changed to allow consideration of such licenses on a case-by-case basis. [71] The U.S. Government announced the eligibility of the Soviet Union for discounts under the Export Enhancement Program (EEP). [72]

During 1987, the Soviet Government accepted the U.S. offer to sell wheat under the EEP. [73] U.S. foreign policy-based controls of oil and gas industry equipment and technology to the Soviet Union were removed. An agreement on Trade in Textile Products (cotton sheeting and printcloth) was signed and entered into force. [74] At the Washington summit (December 8-10), the two heads of state called for a JCC meeting to develop new, concrete proposals for the expansion of bilateral economic relations. [75]

During 1988, at the 10th session of the JCC, the two countries created five working groups to promote bilateral trade and cooperation in specific industries. [76] At the conclusion of the session, a protocol to the Long-Term Agreement to Facilitate Economic, Industrial, and Technical Cooperation was signed, thereby applying the Agreement to joint ventures and other new forms of business in the Soviet Union. [77] The two Governments organized a legal seminar to explore the problems involved in the establishment of joint ventures between U.S. and Soviet firms. [78] The United States relaxed its

[68] CRS Report for Congress, Apr. 15, 1989, p. CRS-8, publication, 89-241 E. During the Geneva Summit, the issue of extending U.S.-Soviet trade and economic ties received only token attention. See Presidential Documents, Nov. 21, 1985, p. 1423.

[69] 49th Quarterly Report . . ., pp. 43, 44.

[70] 49th Quarterly Report . . ., p. 46.

[71] CRS Report for Congress, Apr. 15, 1989, p. CRS-9, publication, 89-241 E.

[72] 49th Quarterly Report . . ., p. 45.

[73] 53d Quarterly Report . . ., pp. 39, 40.

[74] CRS Report for Congress, Apr. 15, 1989, p. CRS-9, publication, 89-241 E.

[75] Presidential Documents, Dec. 10, 1987, p. 1499.

[76] 57th Quarterly Report . . ., pp. 11, 12, 13.

[77] CRS Report for Congress, Apr. 15, 1989, p. CRS-9, publication, 89-241 E. The Long-Term Agreement to Facilitate Economic, Industrial, and Technical Cooperation was signed in June 1974 and was extended for another 10 years in June 1984. Ibid.

[78] Inside U.S. Trade, Inside Washington Publishers, Apr. 29, 1989, p. 11.

opposition to Soviet membership in the International Monetary Fund and the World Bank, and lifted its embargo on the importation of Soviet furskins. [79] At the Moscow summit (May 29-June 1) the two heads of state reconfirmed their strong support for the expansion of bilateral economic relations and encouraged further work by JCC. [80] They cited the expanding relations between Aeroflot and Pan American Airlines under the government-to-government Civil Air Transport Agreement as a positive example of bilateral cooperation. [81] The two countries extended for 27 months their long-term grain agreement, which expired in September. [82]

During 1989, President Bush indicated his willingness to work with Congress toward granting MFN trade status to the Soviet Union. [83] High-level government officials began sorting out obstacles to the further development of bilateral commercial relations. The United States eased controls on its technology exports to the Soviet Union. [84] At the Malta summit (December 1-3), President Bush proposed six economic and commercial measures to General Secretary Gorbachev [85]:

(1) targeting the 1990 summit for the completion of a bilateral trade agreement incorporating the exchange of MFN tariff status;

(2) supporting observer status for the Soviet Union in GATT after the Uruguay Round is completed in 1990.; [86]

(3) expanding U.S.-Soviet technical economic cooperation; [87]

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[79] 57th Quarterly Report . . ., pp. 11, 12.

[80] Presidential Documents, June 1, 1988, p. 725.

[81] Ibid.

[82] 57th Quarterly Report . . ., p. 11.

[83] USITC, MFN Survey, USITC Pub. 2251, p. A-2.

[84] See forthcoming 61st Quarterly Report . . .

[85] Presidential Documents, Dec. 3, 1989, p. 1886.

[86] The President urged the Soviet Union to use the intervening time to move towards market prices at the wholesale level so as to make the Soviet economy more compatible with the GATT system. Presidential Documents, Dec. 3, 1989, p. 1886.

[87] The President proposed projects covering topics such as finance, agriculture, statistics, small business development, budgetary and tax policy, stock exchange operations, and anti-monopoly policy. Presidential Documents, Dec. 3, 1989, p. 1886.

(4) exploring with Congress the lifting of statutory restrictions on export credits and guarantees after the Jackson-Vanik waiver;

(5) beginning discussions of a bilateral investment treaty that would provide protection for U.S. businesses who want to invest in the Soviet Union; and

(6) improving ties between the Soviets and the OECD, and East-West economic cooperation through the economic basket of the CSCE (Conference on Security and Cooperation in Europe) process.

The United States eased controls on technology exports to the Soviet Union. The two countries concluded a new bi-lateral long-term grain agreement. [88]

*U.S. business relations with the Soviet Union.*-- During 1985, U.S. private sector interest in doing business with the Soviet Union increased. [89] The December session of the U.S.-U.S.S.R. Trade and Economic Council (USTEC) was attended by a record 350 U.S. business leaders. During the session, three U.S. firms concluded agreements on technical cooperation and two others signed protocols to existing agreements. [90] The First National Bank of Chicago led a group of major U.S. and foreign banks in syndicating a bank loan for the Soviet Union to enable it to purchase U.S. grains. [91]

During 1986, a number of U.S. companies reacted favorably to the Soviet announcement that the Soviet Union would permit the formation of joint ventures with Western companies in its territory. By year-end, seven U.S. companies signed letters of intent for setting up joint ventures in the Soviet Union and 15 additional U.S. firms engaged in negotiations with Soviet counterparts. [92]

During 1987, the first two U.S.-Soviet joint ventures, involving Combustion Engineering, Inc. and Management Partnership Intl., were created. [93] The Soviet government offered U.S.businesses the use of Soviet satellite launch facilities. [94] The U.S. Feed Grains Council held a widely attended seminar in the Soviet Union on improving agricultural productivity. [95]

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[88] 59th Quarterly Report . . ., pp. 10-11, and see press release of the USDA, Office of the Secretary, March 22, 1990.

[89] 45th Quarterly Report . . ., pp. 42, 43.

[90] 45th Quarterly Report . . ., p. 42.

[91] Ibid.

[92] 49th Quarterly Report . . ., pp. 46, 47.

[93] Interflo, A Soviet Trade News Monitor (Maplewood, NJ), Dec. 1989, p. 3.

[94] International Trade Reporter, The Bureau of National Affairs, Inc., May 20, 1987, p. 684.

[95] International Trade Reporter, The Bureau of National Affairs, Inc., Sep. 2, 1987, p. 1099.

During 1988, the number of U.S.-Soviet joint ventures increased by 16. [96] A group of major U.S. companies established the American Trade Consortium for the purpose of expanding trade with the Soviet Union. A number of Soviet firms formed its counterpart, the Soviet Foreign Economic Consortium (SVK). Cooperation between Pan American Airlines and Aeroflot expanded. [97]

During 1989, amendments to the Soviet joint venture were enacted, allowing Western firms to own the majority of equity in joint stock companies, along with a number of other provisions making joint operations with Soviet firms more attractive. [98] The number of new U.S.-Soviet joint ventures increased at least by 83, including the large, long-term project between Combustion Engineering and the Soviet Government. [99] The USTEC sponsored a major exhibit in Moscow with the participation of 140 U.S. companies and 1,000 U.S. business representatives. The number of Soviet representatives seeking to establish contacts with U.S. firms was 20,000. [100] In general, large associations of U.S. industry and agriculture expressed a growing interest in doing business with the Soviet Union. [101]

*Bilateral trade.*-- After falling between 1985 and 1986, U.S.-Soviet merchandise trade turnover (exports plus imports) registered three consecutive yearly increases, reaching a record of $5 billion during 1989. Most of this increase was the result of increased shipments of U.S. grains.

The United States, and the West in general, did not draw major trade benefits from Soviet policies to modernize the machine building sector during the 12th FYP (1986-1990.) The Soviets financed the shift in their investment priorities almost completely through domestic "restructuring," assigning only a minor role to foreign borrowing. [102] Nevertheless, the annual value of Soviet imports of machines and transport equipment from members of the OECD increased from $5.3 billion in 1985 to an estimated $8.1 billion in 1988, remaining at that level in 1989. [103] U.S. machines and transport equipment shipments to the Soviet Union increased from $0.1 million in 1985 to $0.3 million in 1989, representing an average of 2.4 percent of total OECD sales in this category of exports to the Soviet Union during 1985-1989.

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[96] Interflo, Dec. 1989, p. 3.

[97] Presidential Documents, June 1, 1988, p. 725.

[98] USITC, International Economic Review (IER), February, 1989, p. 4.

[99] Interflo, Dec. 1989, p. 4, and FBIS, Dec. 13, 1989, p. 18.

[100] Press Conference in Moscow, Oct. 17, 1989, USITC staff notes.

[101] For example, see articles published in Inside U.S. Trade, Inside Washington Publishers,"Chamber of Commerce Group Presses for Waiver of Jackson-Vanik Law for USSR," March 3, 1989, p. 10, 11, and "U.S. Exporters Urge Faster Action on Trade, Investment With Soviets," Dec. 1, 1989. See also the testimonies submitted to the U.S. International Trade Commission in connection with Investigation No. TA-332-280, listed in USITC, MFN Survey, USITC Pub. 2251, pp. C-2, C-3, and C-4.

[102] Hewett, Reforming the Soviet Economy, pp. 316, 317.

[103] Estimated by the staff of the USITC on the basis of data compiled by the OECD on member country trade with the Soviet Union.

There were two references to possible effects of Soviet decentralization measures on U.S.-Soviet bilateral trade. The increase in U.S. grain sales may have been caused, to some extent, by a sharp decline in the share of state purchases of domestically produced grain. [104] Agricultural cooperatives, making use of their greater say in marketing decisions, sold a declining portion of their grain to the State, retaining a greater portion for the purposes of animal husbandry, and direct sale on the open market. This decline, in turn, may have contributed to an increase in import demand, since in the Soviet Union the central Government bears the responsibility of supplying mills and feed mixer plants throughout the country at a level adequate to ensure the population's food supplies. [105] During 1987-1989, the Soviet Union was the largest buyer of U.S. wheat. [106]

Some concern had been expressed by U.S. and other Western firms that doing business with Soviet firms became more difficult as a result of decentralization in the country's foreign trade apparatus. According to some observers, managers in charge of enterprises with foreign-trade rights were not aware of the precise extent and limits of their authority, slowing business. [107] There is no evidence that this complaint substantially affected U.S.-Soviet trade, however.

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[104] The share of domestically produced grain that the Soviet State had been able to purchase from its domestic producers fell below 30 percent--the lowest level since at least 1955. Interview with USDA Economic Research Service, Feb. 14, 1990.

[105] Ibid.

[106] Interview with the U.S. Department of Agriculture, Economic Research Service, Commodity Economics Division. March 12, 1990.

[107] USITC, MFN Survey, USITC, Pub. 2251, Jan. 1990, p. 2-21.



**2-14**

## ECONOMIC POLICIES DURING THE 1990s.

For the first half of the new decade, Soviet policymakers foresee the implementation of a mixture of stabilization measures and economic reforms. [108] Emphasis will probably remain on stabilization objectives during 1990-1992, gradually shifting to reform objectives during 1993-1995. For the second half of the 1990s, Soviet policymakers count on the consolidation of the new system and predict an economic upturn. [109]

### Stabilization and reform plans: 1990-95

The stabilization program has many elements that implement reform objectives, such as cutting the budget deficit by reorganizing or closing loss-making enterprises. [110] The reform program, on the other hand, is intended to widen social guarantees during 1990 to help assist the population get through a turbulent, and in some respects austerity-like, period of budget deficit cutting and industrial reorganization. [111] Beyond helping to reestablish a reasonable level of balance between the outstanding purchasing power and the value of goods available for purchase, the reform program's objective during this period is to create and launch the new economic system. [112]

*The stabilization program.* [113]-- The stabilization program for the first half of the 1990s is a further elaboration and extension of the 1989 program. It has been set forth in a number of speeches by Prime Minister Ryzhkov and other key policymakers, in the 1990 national economic plan and in the directives for the 13th FYP (1991-1995). [114] The program's general objective is to reduce the ruble overhang by increasing the supply of consumer goods, selling (or leasing) assets to the public, and by moderating the growth of the money supply through tight monetary and fiscal policies. It also is intended to ensure a reasonably equitable distribution of basic consumer goods, particularly at the lower end of the income scale. [115]

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[108] FBIS, Nov. 14, 1989, p. 57.

[109] Ibid.

[110] Hewett, "Perestroika-'Plus'" pp. 1-22.

[111] Ibid.

[112] Ibid.

[113] This section is based largely on the following sources: Hewett, "Perestroika-'Plus'" pp. 1-22; Tedstrom, "The Soviet Economy: Planning for the 1990s," pp. 1-7; Hanson, "Economic Stabilization Plans," pp. 9-12; "Prospects for Reform: Three Key Issues in 1990," RFE/RL, Report on the USSR, Jan. 26, pp. 1-11; and Interflo, Dec. 1989, pp. 31, 32.

[114] For a collection of major statements made by Soviet Government officials on economic policy during 1990-1995, see Interflo, Dec. 1989, pp. 31, 32.

[115] FBIS, Nov. 7, 1989, p. 78 and Jan. 30, 1990, p. 95.

As a result of further shifts of resources from the capital investment and defense sector to the consumer sector, [116] the plan envisages an annual 66 billion ruble increase in consumer goods output during 1990-1992, compared to the 17 billion ruble per year average increase which occurred under the 12th FYP. [117] Central planning is to be tightened, particularly in the priority consumer sector. State orders to enterprises will probably take up 90 percent of productive capacity on average, going even higher in the consumer goods sector. [118] The authorities are making the refusal of state orders by enterprises more difficult, while at the same time, enterprises will remain on the khozraschet-basis with the accompanying obligation to show profit. Loss-maker enterprises are to be reorganized or liquidated. [119]

To reduce the ruble overhang, the sale of state-owned dwellings and shops to private individuals will expand. Also envisaged is the creation of a retail network specializing in the sale of some nonessential domestically produced and imported consumer goods. The budget deficit, one of the main indices of instability, should shrink from its peak of 13.5 percent of the GNP in 1989 to 3-4 percent in 1995.

*The reform program* [120]-- The reform's main goal for the first half of the new decade is the creation and introduction of the new economic system. The "blueprint" for the reform had been prepared under the direction of Leonid Abalkin, Deputy Premier and Chairman of the State Commission for Economic Reform. Abalkin presented the program--built on the assumption that the stabilization program is successfully executed--at an economic conference in November, 1989. [121] Although the "Abalkin Program" was voted into law in December 1989, its detailed implementation will require further, extensive legislation. The program identifies the first half of the decade as the "transition" period and breaks it into three stages:

*Stage 1. Creation of the transition mechanism (1990).*-- Preparation of laws and regulations should be completed for the introduction of a uniform system of taxation, for the commercialization of investment credit, for a partial reform of wholesale prices, for turning unprofitable enterprises into cooperatives (or, alternatively, leasing their capital equipment to groups of employees

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[116] The conversion of military industrial capacity into civilian production is planned to continue at least through the early 1990s. The draft budget for 1990 allocated 4 billion rubles to the costs of converting defense production facilities to civilian use. See Hanson, "Economic Stabilization Plans," p. 11.

[117] FBIS, Jan. 26, 1990, p. 101.

[118] The proportion of state orders may have ranged from 25 percent to 95 percent of production capacity during 1988, averaging 86 percent in the machine building sector. Interflo, Dec. 1989, p. 32, and 57th Quarterly Report, p. 24.

[119] FBIS, Nov. 14, 1989, p. 57.

[120] This section is based largely on the following sources: Hewett, "Perestroika-'Plus'" pp. 1-22; Tedstrom, "The Soviet Economy: Planning for the 1990s, pp. 1-7; Hanson, "Economic Stabilization Plans," pp. 9-12; "Prospects for Reform: Three Key Issues in 1990," RFE/RL, Report on the USSR, Jan. 26, pp. 1-11; and Interflo, Dec. p. 31, 32.

[121] FBIS, Nov. 14, 1989, pp. 57.

inside the firm, or to outside firms, or liquidating them), for remodeling or liquidating state and collective farms operating at loss, and for creating a social welfare system (featuring unemployment assistance, training programs, and income indexation) to cushion the shock of these reforms. The liquidation of loss-making industrial enterprises should be completed. [122]

*Stage 2. The launching of the transition mechanism (1991-1992).--* According to the program, the above laws should go into effect and the remodelling and liquidation of state and collective farms should be implemented. By this time, progress in stabilization should allow a freeing of industrial enterprise capacity from state orders. Enterprises should produce increasingly for the market at freely set prices. Manufacturers' auctions and fairs should be transformed into goods exchanges, a stock exchange should be organized and large enterprises should be broken up to create a competitive environment in domestic markets. A limited functioning of the market system would begin.

*Stage 3. Full implementation of the new system (1993-1995).--* According to the program, conditions that necessitated emergency financial measures should end. The system introduced during stage 2 would begin to operate, imparting increasingly significant market forces throughout the economy. As a result, prices and incomes would increase. The creation of an unspecified number of small and medium-size firms under the antimonopoly program should further develop competitiveness in various domestic markets. By the end of the transition period, pure state ownership by value of the capital stock would shrink to roughly one-fourth. At least 40 percent of the state's productive capital stock should be converted into joint stock companies; another 33 percent should be operating on leases. Efforts to open up the Soviet economy to the West would increase. Special economic zones, or free economic zones, should be established and a limited Western access to Soviet capital markets should be allowed. Through the expansion of currency auctions, the ruble would become partially convertible. Yet-undetermined measures to speed up the process of making the ruble fully convertible (e.g., through the introduction of a second currency backed largely with gold) might also be implemented.

**Reform plans: 1996-2000**

According to the "Abalkin Program," the economic system introduced during 1990-1995 should become fully functional during 1996-2000. By that time, the economic structure should be market-determined, reflecting public demands for goods, i.e., the results of economic restructuring should be firmly in place. Driven by market forces, the economy is expected to take off during this period. The State's economic policies from this time on would be implemented mainly through "economic" or "indirect methods," as fiscal and monetary policies are called, reducing the role of direct planning through the drastically pruned, but strategically vital, state sector.

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[122] Ibid.

**Reform measures in 1990**

A new law on leasing went into effect on January 1, 1990. It partly incorporated and partly superceded previous legislation, which evidently did not elicit the expected level of entrepreneurship from the population. [123] Under the newly created legislative framework, individuals, groups of individuals, and various organizations can lease buildings, equipment, entire enterprises, transportation, and other services, in any and all sectors of the Soviet economy. This right is also extended to non-Soviet residents. Rental agreements under the new legislation are like standard business contracts. The law makes provisions for arbitrating disputes between leasing parties, and generally intends to protect the rights of the lessee, including the provision for limited inheritance rights. [124]

The new draft law permitting the private ownership of land and capital goods is expected to pass through the full legislative process in 1990. [125] The proposed law sets out the individual citizens' rights to own farms, farm buildings and other agricultural capital. [126] Most, if not all, the preparatory work will be accomplished on a new tax system. The new system would change the current ad hoc system of resource centralization through separate tax assessments for individual enterprises to a uniform tax. [127] Preparatory work to make the ruble partially convertible will continue during the year. [128]

**Assessments**

Many Soviet economists, in agreement with Western analysts, say that heavy reliance on central planning raises doubts about the stabilization program's chances to succeed as quickly as planned. [129] Without market prices, neither central planners nor the enterprises really know how much to produce of what commodity. Consequently, analysts appear to agree, some enterprises are bound to take scarce inputs away from others that are scheduled to produce commodities in a greater demand. The result might be a hoarding of inputs, the chain-reaction of capricious shortages and overproduction. Furthermore, the increase in incomes, matching the growth of aggregate output, would face an

[123] U.S. Department of State Telegram, UNCLASS, Moscow, 34007, 1989.

[124] According to some Soviet estimates, leasing will occur in at least 20 percent of state enterprises during 1990-92, and the potential of leasing amounts to 60 percent of Soviet state property. (FBIS, Dec. 13, 1989, p. 120.)

[125] East Europe & China Agriculture and Food Report, January, 1990, pp. 1, 2.

[126] Ibid.

[127] FBIS, Nov. 14, 1989, p. 57.

[128] FBIS, Nov. 13, 1989, pp. 29-33.

[129] For example, see FBIS, Nov. 6, 1989, p. 6, and Hanson, "Economic Stabilization Plans," p. 11.

unwanted mix of commodities--a development hardly conducive to ride out the storms of ruble overhang. [130] Some of these fears have already been borne out by early 1990 economic reports. [131]

Western analysts claim that branch ministries, which play a vital role in command-type central planning, have lost a great deal of their authority over enterprises during the past five years and might, therefore, be unable to enforce strict plans required under the stabilization program. [132] Nevertheless, the combined stabilization-reform measure of selling assets to the public and allowing the growth of goods-producing cooperatives should help in the realization of stabilization objectives by both reducing the ruble overhang and increasing supplies of consumer goods. [133]

In some respects, the reform program appears to be overly optimistic. [134] For example, it plans to eliminate loss-making enterprises during 1990. [135] Hungarian experience with the enforcement of bankruptcy laws during recent years reveals just how difficult it is to liquidate loss-maker enterprises. [136] Moreover, given that the price reform is still in its earliest phase, how will the authorities be able to establish with certainty which enterprises should and which ones should not be reorganized? It appears that both the stabilization and the reform programs could easily get off schedule and undergo several alterations during the ensuing years. [137] But the vagueness [138]that results from this might have given Soviet policymakers the tactical advantage to maneuver between causing

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[130] For example, N.P. Shmelev illustrated the argument that central planning without market prices creates overproduction in one good, and a necessary underproduction in another, in the following way: "We can produce, for instance, an enormous quantity of thread but not put needles on the market, and then everyone will be shouting about the deficit in needles." FBIS, Nov. 6, 1989, p. 96.

[131] FBIS, Feb. 1, pp., 95, 97.

[132] Business Eastern Europe, Feb. 12, p. 49.

[133] See views expressed on the preconditions of the stabilization program's success by Hewett and N.P. Shmelev in The Brookings Review, The Brookings Institution, Winter 1989/90, pp. 27-32.

[134] See Tedstrom, "The Soviet Economy: Planning for the 1990s," pp. 4-7.

[135] FBIS, Nov. 14, 1989, p. 57.

[136] According to a recent Hungarian news report, the country's bankruptcy law, consistent with market economic principles, passed in the fall of 1986, had largely failed to eliminate loss-makers: "No doubt, one reason why the bankruptcy law has failed thus far is that since the very beginning the government has been throwing life rafts one after another to large industrial enterprises that were supposed to be liquidated....it had to be realized that liquidation proceedings are being impeded not only by central rescue actions, but also by the economic environment which, in the absence of real owners, is characterized by the state sector and by the depressing overweight of monopolistic organizations. Under such conditions in most instances the creditors themselves are dependent on the insolvent large enterprises, because if they are liquidated the creditors may lose their most substantial customers." FBIS, Jan. 23, 1990, p. 33.

[137] Hewett, "Perestroika-'Plus'" pp. 9-11.

[138] See report based on Ed A. Hewett's 1989 Sturc Memorial lecture at the John Hopkins University's School of Advanced International Studies, IMF Survey, Nov. 27, 1989, pp. 353, 363, 364.

too much temporary hardship--and provoking criticism from the populist "left"--and not moving fast enough with the reform, drawing criticism from the radical reformer "right." [139]

Reforming the Soviet economy in the midst of an economic downturn is a herculean task that by necessity will be a trial-and-error process, accompanied by ideological strife. [140] Consequently, the current reform program and strategy of implementation might be altered and revised several times in the future. However, a return to the pre-perestroika ideology of economic management is likely to remain an irrational proposition. [141] The current reform--as reflected by the "Abalkin Program"--differs from previous attempts to improve Soviet economic management in both scope and will to carry it out. [142] This is explained by the fact that whereas previous reform attempts were predicated upon the assumption that the centralized management of the economy was basically sound and it needed only perfecting, perestroika has grown out from irrefutable proof that central planning is ill-suited to satisfy Soviet society's demand for a higher standard of living. [143] By and large, the country realized that there is no rational alternative to radical economic reform. [144]

## Effects on U.S.-Soviet economic relations

Most experts on U.S.-Soviet relations agree that if a trade agreement were signed between the two countries, containing the mutual extension of most-favored-nation (MFN) tariff status, economic relations would improve between the two countries. [145] Most experts also agree that further improvement in overall bilateral relations will depend on economic developments within the two countries as well as on factors external to both.

*Government-to-Government economic relations.*-- Negotiations are underway that may lead to reciprocal MFN tariff status between the United States and the Soviet Union, along with a lifting of the U.S. ban on Soviet access to U.S. Government credit, and U.S. private sector access to U.S.

[139] Ibid.

[140] See CPSU Central Committee Platform, FBIS, Feb. 14, 1990, pp. 41-45, and Feb. 27, 1990, p. 69, and article by Vera Tolz, "The Implications for Glasnost' of Gorbachev's Attack on Reformists," RFE/RL, Report on the USSR, Oct. 27, 1989, pp. 5-9.

[141] See CPSU Central Committee Platform, FBIS, Feb. 14, 1990, pp. 41-55.

[142] See Hewett, "Perestroika-'Plus'" p. 9; and Academician G. Arbatov, "Prestige of Power. Reflections on the CPSU Central Committee Plenum," FBIS, Feb. 16, 1990, pp. 95-97.

[143] See "Prepared Statement of Murray Feshbach, Professor, Georgetown University, in U.S. Congress, Joint Committee, Economic Reforms in the U.S.S.R., (Washington, D.C., U.S. Gov't Print Off., 1988), pp. 63-90.

[144] See opinion polls on the economic reform in FBIS, Dec. 29, 1989, pp. 82, 83.

[145] See USITC, MFN Survey, USITC Pub. 2251, 2-16 through 2-22.

Government credit and insurance guarantees. [146] A bilateral investment treaty, enhancing U.S. investor confidence in the U.S.S.R., and a tax treaty assuring the avoidance of double taxation may also be negotiated. However, a long-term grain agreement ensuring U.S. grain exporters roughly the same level of sales to the Soviet market as under the current agreement, is uncertain for the second-half of the 1990s. [147]

*U.S. business relations with the Soviet Union.*-- Most U.S. experts on U.S.-Soviet commercial relations expect the climate for U.S. firms doing business with the U.S.S.R. to improve if a bilateral trade agreement containing the reciprocal extension of most-favored-nation tariff statuses is reached between the two countries. [148] The climate for U.S. investors is expected to continue to improve with the conclusion of bilateral investment and tax treaties, and an intensification of Soviet efforts to attract foreign capital starting probably in 1993. [149] Soviet moves to attract Western capital will likely include the allowing of Western participation in the Soviet capital market--yet to be organized--and the establishment of "free economic zones." [150] Further growth in U.S. private sector interest in doing business with the Soviet Union will depend largely on the successful implementation of the Soviet Government's current economic policy package. [151] Many Western economists share the view that success in stabilization and reform would not only improve general economic conditions in the Soviet Union--which by itself could be highly beneficial for the U.S. business community--but would also make doing business with the Soviets easier. [152] With the reform's progress, U.S. firms expect their counterparts to act with an increasing independence from their state-supervisory agencies. [153]

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[146] For details on U.S. moves to exchange MFN status with the Soviet Union during 1989 see forthcoming 61st Quarterly Report . . ., and under appropriate sections in USITC Pub. 2251. For a description of the legislative mechanism involved in granting MFN status and access to U.S. financial programs to the Soviet Union, see Congressional Research Service, The Library of Congress, "The Jackson-Vanik Amendment and Granting Most-Favored-Nation Treatment and Access to U.S. Financial Programs To the Soviet Union," CRS Report for Congress, Dec. 20, 1989, publication 89-686 E.

[147] The Soviet Government is in the process of preparing a national grain program for 1991-1995. The program's main goal is to reduce the Soviet Union's dependence on imported grains. (FBIS, Jan. 18, 1990, pp. 134, 138.) Details are not available at present, but there are indications that the program will try to utilize the newly created private initiatives in farming. For more details on U.S. prospects for grain exports to the Soviet Union see USITC, International Economic Review (IER) October 1989, p. 6.

[148] See USITC, MFN Survey, USITC Pub. 2251, pp. 2-16/2-22.

[149] Hewett, "Perestroika-'Plus'" p. 9.

[150] For current Soviet thinking on the "free economic zones" see FBIS, Feb. 8, pp. 104-108. For a list of areas considered for the establishment of zones see USITC International Economic Review (IER), August 1989, p. 7.

[151] See USITC, MFN Survey, USITC Pub. 2251, p. 2-21.

[152] See Muller, "Economic Reform in the Soviet Union," p. 68; "Managing the Transition," Institute for East-West Security Studies, Special Report, New York, 1989, p. 25, and Jerry F. Hough, "Opening Up the Soviet Economy," The Brookings Institution, Washington, D.C., 1988, pp. 74-76.

[153] About 10,000 Soviet end-users were registered for direct foreign trade with the West at the 1989. This number will reportedly increase by several thousand in 1990. Despite the recentralizing effects of the stabilization program, the say of enterprises in how their portion of centrally allocated hard currency import funds are spent is reportedly increasing. Business Eastern Europe, Feb. 12, 1990, p. 51.

Experts agree that further growth in U.S. private sector interest in doing business with the Soviet Union will also depend on factors external to Soviet economic policy or to overall bilateral relations. [154] For example, if there were a recession in the United States, and at least some other parts of the West, many U.S. businessmen think that the Soviet Union's importance as a trading partner and investment opportunity could increase. [155]

## The Soviet economic system in perspective

Although the Soviet reform program lacks the details needed to bring the ultimate outline of the desired system into view, [156] most economists agree that it is steering the country away from its current nonmarket economic system towards an intermediate type of economic system, akin to a system often referred to as a "socialist market economy", "market socialism" or "planned market economy." [157] Such a system, first introduced in Yugoslavia during the 1950s, [158] rests on the synthesis of market economic principles and planning. Its two premises are that a rational organization of the economy is inconceivable without market forces and a purposeful development of the economy is inconceivable without the state's planned guidance. [159] The latter, not to interfere with the former, must lean heavily on fiscal and monetary policies rather than on directive central planning. [160] The final form of economic organization towards which the Soviet system is evolving can be defined only loosely, and reform programs and objectives may undergo several major alterations during the next decade. [161]

The current reform process may be viewed as a search for a new trade-off between equality, as represented by the associated system of detailed central planning, and economic efficiency, as represented by its opposite, a complete economic "laissez faire." [162] Since the search for the new trade-off has started from the principle of absolute equality, ingrained for generations into the national

[154] Interview with Ms. J.L. Thornton, Director of Research, The Washington Research Group, A Division of CL Global Partners Securities Corporation, Mar. 20, 1990.

[155] Ibid.

[156] See article by Hewett, "Perestroika-'Plus'" pp. 1, 2.

[157] See Secretary Baker's statement prepared for the Senate Finance Committee on October 4, 1989, U.S. Department of State, Department of State Bulletin, December 1989, p. 20.; "Prepared Statement of Joseph S. Berliner," Brandeis University, and Russian Research Center, Harvard University, in U.S. Congress, Joint Economic Committee, Economic Reforms in the U.S.S.R., (Washington, D.C., U.S. Gov't Print Off., 1988), pp. 274-282, and; FBIS, Feb. 14, 1990, pp. 41-48.

[158] John H. Moore, "Self-Management in Yugoslavia," in U.S. Congress, Joint Economic Committee, Economic Reforms in the U.S.S.R., (Washington, D.C., U.S. Gov't Print Off.,), pp. 217-220.

[159] Csikos-Nagy, Socialist Economic Policy, (Academic Publisher, Budapest, Hungary, 1973,) pp. 10, 11.

[160] Ibid., pp. 123-134.

[161] Muller, "Economic Reform in the Soviet Union," pp. 54-58.

[162] For details on the equality-efficiency trade-off see Hewett, Reforming the Soviet Economy, pp. 2-3, 28, 29-30, 295-296.



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psyche, it is likely that the Soviet community will trade the minimum equality possible to achieve the level of economic efficiency it desires. [163]

## General limitations on trade

Growth in overall Soviet trade with the world outside the Soviet Union's immediate sphere of economic influence will be subject to significant constraints during the next decade. Most experts think that the growth in natural resource exports will be slow, partly because of the high costs involved in increasing Siberian hydrocarbons production [164] and partly because of Soviet reluctance [165] to rely heavily on natural resource exports for economic development. The growth in capital goods exports will be constrained by the lack of internationally competitive products. In agriculture, the Soviets' goal is to achieve self-sufficiency. [166] To the extent they succeed, overall agricultural trade with the West is likely to diminish rather than increase. According to most experts, the growth of imports will be constrained by limited export earnings, the inevitably slow process of making the ruble convertible, and by an apparent Soviet policy to arrest the growth of external debt.

With the long term process of modernization in the Soviet Union, the output of internationally competitive Soviet products will also grow, but much of this growth will likely be absorbed by trade with Eastern Europe and with the country's increasingly autonomous regions. [167] Soviet observer status (and even full membership) in the GATT, and membership in the International Monetary Fund and the World Bank would not reduce these limitations to a significant extent. [168]

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[163] See Muller, "Economic Reform in the Soviet Union," p. 46.

[164] For example, see U.S. Congress, Allocation of Resources in the Soviet Union and China-1987, (Washington, D.C., U.S. Gov't Print Off., 1987), p. 85. For a thorough analysis of energy supplies and trade in the Soviet Union involving Siberian fields see U.S. Congress, Soviet Economy in the 1980s: Problems and Prospects, Washington, D.C., U.S. Gov't Print Off., 1982, pp. 351-456. For an analysis of technological constraints in Soviet hydrocarbons production see article by M.J. Sagers and A. Tretyakova, Constraints in Gas for Oil Substitution in the USSR: The Oil Refining Industry and Gas Shortage Soviet Economy, Feb. 1986, pp. 72-94.

[165] USITC, International Economic Review (IER), Dec. 1989, p. 9.

[166] For an assessment of strengths and weaknesses in the Soviet export sector see FBIS, Dec. 12, 1989, pp. 97, 98. For a statement on the lack of Soviet agricultural self-sufficiency see Muller, pp. 58, 59. For a brief assessment of Soviet dependence on imported grains during the 1990s see USITC International Economic Review (IER), October, 1989, p. 6.

[167] For a thorough analysis on CMEA and Soviet-East European relations see U.S. Congress, Joint Economic Committee, Pressures for Reform in the East European Economies, (Washington, D.C., U.S. Gov't Print Off., 1989) pp. 509-600.

[168] If the Soviet Union obtains MFN tariff status from the United States, it will have MFN status with all the industrial countries. Since MFN would be expected to be provided before the Soviet Union could be admitted to the GATT, GATT membership would not bring Soviet exporters new tariff discounts. Although GATT membership could provide the Soviets with a forum to discuss their grievances about certain Western trade practices they consider discriminatory under GATT rules, these grievances could be addressed through bilateral channels. For the U.S. Administration's position on Soviet GATT participation see statement of Secretary James Baker "U.S.-Soviet Relations: A Discussion of Perestroika and Economic Reform," Department of State Bulletin, December 1989, p. 25.

Despite these general limitations, Soviet trade with the West may grow significantly during the next two decades, given its relatively low annual base of $55-$60 billion. [169] Western dependence on Soviet energy and raw material supplies is likely to increase over the period and a limited number of Soviet manufactured product exports could have great success in world markets.

### *Export limitations*

In viewing the potential growth of Soviet exports, the energy and raw material sector and the capital goods sector deserve closer attention: The first is where the Soviet Union's comparative advantage lies, the second is what the planners want to push.

*Energy products and raw material exports.--* Growth in Soviet energy product and raw material exports face some major constraints, limiting the potential for growth in Soviet exports. The next major increase in Soviet oil and natural gas production will have to come from Siberian fields, because production in the European part of the Soviet Union (mainly in the Baku area in Azerbaijan) may have reached its limits. But the high costs of Siberian production are associated with uncertain benefits, given the uncertainty of world prices. Both Western firms and the Soviet Government are slow to commit resources on a scale that would significantly increase Siberian oil and natural gas production.

There is a growing domestic claim on the country's natural resources. The 1986 Chernobyl accident has slowed, if not halted, construction of Soviet nuclear reactors, increasing the demand for domestically produced hydrocarbons. Also, it can be expected that environmental concerns over the large scale exploitation of natural resources, in general, will tend to tighten natural resource supplies in the foreseeable future.

Finally, the Soviet Union would like to break out from its current heavy reliance on natural resource exports to import advanced capital goods.

*Constraints on capital goods exports.--* At present, much of Soviet industry is subsidized to produce goods that can be used only in the special Soviet technological environment that was created in autarchic isolation. According to data from the U.S.S.R. Ministry of Foreign Economic Relations, 60-62 percent of domestic machine sales are subsidized and only 12-14 percent of Soviet machine exports are really competitive in the West. [170]

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[169] The range reflects annual trade turnover (exports plus imports) between the OECD and the Soviet Union during 1988-1990. (Estimated by the staff of the USITC on the basis of data compiled by the OECD on member country trade.) According to Soviet reports, the 1989 trade turnover with the Western countries was 52.8 billion rubles. (FBIS, Jan. 30, 1990, p. 94.) Using the old rate of R 0.63 = $1, the 1989 turnover amounted to $83.8 billion, but taking account the recent 10-fold devaluation, the 1989 turnover amounted to only $8.4 billion.

[170] FBIS, Dec. 12, 1989, pp. 95-98.

Soviet planners would like to see a rapid modernization in the country's manufacturing base. The volume of machine building product [171] exports is scheduled to increase 4.0-fold from 1988 to the year 2000, exceeding considerably the 2.5-fold export and the 2.0-fold import volume increase planned for the same period. [172] The planners count on a large-scale inflow of direct Western investment to help accomplish the task of modernization. They think that the Soviet Union--rich in natural resources, having a well-trained labor force and a huge infrastructure for scientific research--should be able to attract significant amounts of Western capital over a short period of time. Leading Soviet economists disagree. [173] They apparently do not believe that during a single decade marred by economic crisis, Western capital will flock into the country to turn its comparative disadvantage in machine building sector into a comparative advantage. [174]

Calculations performed at the Institute of World Economics and International Relations (IMEMO) indicate that if, in the course of the economic reform, all direct and indirect subsidies to the machine building sector were eliminated, exports in this category would decrease rather than increase. [175] This casts a serious doubt on the willingness of Western firms to pump capital into Soviet machine building. The economists predict a disastrous growth in the Soviet Union's foreign indebtedness if the forced development of machine building product exports were to be carried out. [176]

A rational expectation, voiced by Soviet economists, is that Soviet firms, in joint ventures with Western firms, located in free economic zones, [177] will be in the best position to succeed in world industrial markets on a relatively large scale. [178]

*Growing East European and intra-Soviet demand on competitive Soviet goods.--* As the economic stabilization program takes hold and the reform progresses in the U.S.S.R., the volume of Soviet goods competitive on world markets is expected to increase. But most of the competitive

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[171] According to the Soviet classification of industrial production, the "machine building complex" includes the following groups of commodities: metal-cutting machine tools, forging and pressing machines, instruments, automation means, medical equipment and spare parts, computer equipment and spare parts, rolling equipment, chemical equipment and spare parts, tractors, agricultural machines, excavators, car and storage batteries. (FBIS, Jan. 29, 1990, p. 112.)

[172] Ibid.

[173] Ibid.

[174] Ibid.

[175] Ibid.

[176] Without direct Western investment, according to IMEMO calculations, the 4-fold increase in machine building product exports would result in large trade deficits--all price and other factors, external to the machine building sector considered--bloating foreign debt to a point where it could hardly be serviced from the expected trade surpluses beyond the year 2000. FBIS, Dec. 12, 1989, pp. 95-98.

[177] For a list of possible locations of "free economic zones" in the Soviet Union see USITC, International Economic Review (IER), August 1989, pp. 6, 7.

[178] FBIS, Dec. 12, 1989, pp. 96, 97. For current Soviet thinking on "free economic zones," see FBIS, Feb. 8, 1990, pp. 104-108.

export products could be absorbed to maintain the vital economic link with Eastern Europe and keep the Soviet Republics together.

Most of the East European countries will achieve the convertibility of their national currencies before the Soviet ruble becomes convertible. This circumstance, combined with the East European countries' dependence on Soviet natural resources and markets [179] and a shared East European-Soviet technological environment that resulted from decades of close cooperation within the Council for Mutual Economic Assistance (CMEA) [180] will create the best first chance for Soviet firms to increase Soviet hard currency earnings significantly from the sale of internationally competitive products.

Moreover, industrial firms in the Moscow-centered Russian Republic (R.S.F.S.R.) will find themselves in competition with East-European and Western-manufactured commodities in the rest of the country. Competition will force them to sell their world-market quality products within the Soviet Union rather than export them to the West, as it is often the case at present. Interdependence among the Republics through the several factors that bind Eastern Europe to the Soviet Union is further augmented by shared infrastructures and the common use of the Russian language.

### *Import limitations*

Limits on export earnings limit imports. In addition, making the ruble convertible will be a slow process during which the Soviets will try to arrest the growth of their external debt.

*The lack of ruble convertibility.--* If the ruble were fully convertible, [181] a combination of fiscal and monetary policies could allow the country to enter into a relatively controllable form of ruble-denominated external debt for the sake of industrial modernization. [182] The problem is that the ruble cannot be made convertible on a full scale before the domestic economy is straightened out. Instant convertibility would accelerate inflation, lead to great waste, and set the reform back by increasing the need for subsidization to prevent a large-scale economic dislocation fraught with social unrest. The introduction of convertibility and the economic reform will have to proceed together. Soviet economists do not expect the ruble to become fully convertible before the year 2000. [183]

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[179] U.S. Department of State Telegram, UNCLASS Prague 00780, 1990.

[180] For an analysis of CMEA integration efforts since the organization's inception through the 1970s, see Paul Marer and John M. Montias "CMEA Integration: Theory and Practice," (Washington, D.C., U.S. Gov't Print Off., 1981, pp. 148-195.)

[181] For a review and analysis of all macroeconomic aspects surrounding the Ruble's convertibility, see Ronald I. McKinnon, Stabilizing the Ruble, paper presented at the Atlanta meetings of the American Economic Association, Dec. 28, 1989.

[182] A proper combination of fiscal and monetary policies could cause the convertible ruble to appreciate, making Soviet imports relatively cheap, i.e., switching expenditures from domestic to foreign capital goods at some risk of a temporary slowdown.

[183] USITC, MFN Survey, USITC Pub. 2251, p. 2-29.

The Soviet Union is likely to adopt limited versions of ruble convertibility [184] before full convertibility is achieved. However, since progress in reforming the domestic economy and preparing the ruble for convertibility are two strongly interacting processes, abuse of the ruble's limited convertibility to finance an import binge could set back the reform. [185]

*Constraints on borrowing.*-- Even with an expected 1990 current account deficit of \$3.5-\$4.0 billion, [186] Soviet gross debt will remain in the neighborhood of \$50 billion (roughly half that of Mexico) by year-end 1990. The Soviet leadership apparently thinks that it has over-borrowed [187] and has, so far, consistently refused suggestions by leading economic advisors to eliminate the ruble overhang with one fell swoop through borrowing. [188] The Soviet Government will most likely exert efforts in the future to stem the growth of external debt.

[184] See section on stabilization and reform plans for 1990-95 under "Economic Policies During the 1990s."

[185] Before the reform is fully accomplished, some firms and some prices will remain subsidized. If the ruble falls sharply against hard currencies as a result of massive Soviet trade deficits and a diminished confidence in its value, domestic market prices would rise. This, in turn, would increase the difference between profits and subsidized incomes; between market prices and subsidized prices, increasing the need for overall subsidization--doing exactly the opposite of what the reform is trying to accomplish. For an analysis on the consequences of making a nonmarket economy country's currency prematurely convertible see F. Lang and R. Ohr, "Die Wahrungspolitischen Perspektiven der DDR," Wirtschaftsdienst, Hamburg, Dec. 1989, pp. 610-614, in German.

[186] Business Eastern Europe, Feb. 12, 1990, p. 52.

[187] See, for example, statement by Premier Nikolai Ryzhkov, Financial Times, June 10, 1989, p. 10.

[188] One such suggestion in described in FBIS, Feb. 12, 1990, p. 132.

# Chapter 3

## Reforms and Soviet Trade

## REFORMS AND SOVIET TRADE

A major goal of the Soviet economic reform measures implemented since March 1985 is to facilitate closer economic ties between the Soviet Union and the outside world. [1] The belief is that such ties will eventually improve resource allocation and stimulate firm-specific efficiency, including the development of new products and processes.

To achieve these ends the Soviet Union will rely on the discipline of international markets. Although the current trade reforms are not very comprehensive, the Soviet Union expected them to yield major gains in export competitiveness and expanded foreign investment. Only recently have Soviet policy-makers begun to recognize that it is futile to expect major gains from a liberalized foreign trade regime grafted onto a mainly centralized domestic economic system. Currently, however, the government is unable to undertake the massive structural adjustments that substantial participation in international markets will require. [2]

### Reform of the Soviet foreign trade structure

From the Soviet point of view, liberalized East-West trade and investment serves two purposes. In the short run, it provides access to Western technology (especially machinery and engineering equipment) and Western managerial skills, both of which are crucial to the internal modernization program. In the long run, the introduction of Western investment will improve the quality of Soviet manufactured products. Despite the recent decline in oil prices, the current disorganization of internal reforms and the decline of the dollar, Gorbachev is determined to convert the Soviet Union from a "raw material appendage" to the West, exporting its primary products for machinery it can not produce internally, to an exporter of high-valued manufactured goods. [3]

In order to create a capability to produce and export manufactured goods to the West, the current reforms employ a two-pronged strategy. First, the state is determined to encourage local exports. Second, through constraints on state procurement, Gorbachev intends to allow domestic manufacturers to export more of their output. The success of these measures depends on the usefulness of the policy measures taken and the quality of Soviet manufactured goods.

[1] With respect to foreign trade a number of relevant new laws and decrees have been published. They include: i) a general reform of foreign trade reported in: Ekonomicheskya gazeta, 1987:4, 3-4; ii) decrees on joint ventures found in: Ekonomicheskya gazeta, 1987:6, 15-18, 9:23, 10:23, and 11:23; iii) revisions to earlier trade reforms reported in: East-West Fortnightly Bulletin, no. 422:3-4 and iv) further revisions as well as plans for a currency auction reported in: Ekonomicheskya gazeta, 1988:51 17-19.

[2] In an unusual comment on the state of economic reforms Oleg Bogomolov, in "Mir sotsializma na puti perestroiki," Kommunist 1987:16, 92-103, notes that the main success of the reforms is that they continue.

[3] Moskovskie Novosti, 1987.

A major tool of the trade reforms is to encourage a select group of ministries to export by allowing them to retain a portion of their hard currency earnings for foreign investment (**Appendix A**). [4] According to Soviet figures, the initial list of ministries affected by the 1987 reorganization in international trade included 29 percent of Soviet imports and 12 percent of Soviet exports. [5] The intent is clearly to limit imports purchased with hard currency.

The export promotion element is hard to find in this list of affected ministries. In fact, the export promotion side of the reforms is contained almost exclusively in the drive to limit state procurement. In order to promote exports of high-valued manufacturing and engineering goods, the state under its State Enterprise Law has begun to cut back its orders for engineering goods. Deputy Chairman of Gosplan Leonid Vid has declared that, during 1989, state orders would affect only the most important and technologically advanced engineering products. All but 10 categories of machine-tool products would be completely free from state orders. In the instrument-building industry, 41 percent of total production will be governed by state orders. In the automotive sector this proportion will amount to 21 percent of total output. The share will be 9 percent for agricultural machinery, 27 percent for the chemical and petrochemical sector, and 28 percent for electrical equipment. [6] The hope is that these measures will leave a larger share of the high-valued manufactured goods for export, directly or in countertrade arrangements.

## Impact of trade reforms on Soviet trade

Besides the reductions in state orders, greater rewards will be used to encourage exports, a practice already introduced in several East European countries. It is also recognized that the Soviet capacity to export benefits from a more ample supply of imports.

The effects of the Soviet policies on trade are not easily predictable. On the one hand, the current reforms tend to encourage some short-term expansion of exports. On the other hand, these reforms create a dual economic system which, by adding uncertainty, reduce output, and consequently reduce exports and imports.

In 1988, Soviet export earnings fell by 14 percent owing to declining oil prices. The growth of imports in that year was broadly based, especially in foodstuffs, crude materials, consumer goods, and machinery and equipment. It should be noted that despite this growth, Soviet imports from the West in 1988 were still below the 1985 level.

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[4] In January 1987, 68 enterprises and 21 ministries were granted direct foreign trade rights. A striking feature of the organizations granted foreign trade rights is that they are predominately in the manufacturing, engineering and machine tools sectors.

[5] Ekonomicheskaya gazeta, 1988:25.

[6] These figures were quoted in BBC World Summary of Broadcasts, Soviet Union, September, 23, 1988

Soviet industrial growth had begun to slow already towards the end of 1988. A number of accidents in the energy transmission network, as well as strikes and ethnic disturbances that affected especially the mining and transport sectors, led to raw material and energy bottlenecks in 1989. These factors have affected the Soviet Union's ability to supply Eastern Europe and to absorb East European imports.

In 1988 the decline in Soviet trade performance stemmed from its trade with the socialist countries. In intra-CMEA trade, both Soviet exports and imports declined in volume, in part reflecting the supply constraints and transport bottlenecks mentioned above.

There was a further, sharp deterioration in the Soviet Union's trade balance in the first half of 1989. For the first time since the mid-1970s, the Soviet Union appears to be headed for an overall trade deficit. In the first half of the year, the Soviet Union was in net deficit with both the developed and developing market economies, as well as with the countries of East Europe.

The prospects for Soviet exports do not look particularly favorable at this time. Exports to the West have weakened and were running markedly behind plan in the first three quarters of 1989. In part this was due to shortfalls in petroleum and certain petroleum products deliveries, which were undoubtedly held down by falling oil production. Difficulties have been reported in the fuel sectors which may not be easily solved in the short-run. [7] In documents submitted to the Supreme Soviet for discussion of the 1990 budget, the government proposed cutting oil exports by 3.8 million tons. [8] It is not clear whether that cutback would affect all oil exports, or only those to the convertible currency area. Prospects for petroleum and petroleum product exports, which remain the dominant item in the country's export structure, are further clouded by problems in the coal industry since fuel oil may have to be substituted for coal in domestic use.

By contrast, the Soviet demand for imports is expected to remain high, despite the policies to limit imports. Also, despite an improved harvest this year, the major item on the import list is foodstuffs. A scheme to reduce dependence on food imports by paying state farms in convertible currencies for above-plan production is not expected to have much impact in the short run. Internal demand for a wide range of consumer goods and industrial inputs is expected to remain buoyant. Although capital goods are required for modernization, demand of many enterprises has been tempered by new regulations requiring self-financing of Western machinery imports, either with repayable bank loans or from their own retained export earnings.

If the Soviet Union's export revenues stagnate as expected, and their import growth continues, the country's trade balance with the West and the balance of their current account in convertible

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[7] Mr. Vladimir Filanovsky, First Deputy Minister for oil and gas, attributes faltering oil production to a combination of staff cuts, decentralization, and a failure to supply new equipment to the industry. Summary of interview with Sotsialisticheskaia Industria in Financial Times. 28 September 1989.



[8] Financial Times. 31 October 1989.

currencies will continue to deteriorate, with increases in net indebtedness even larger than the estimated $3-4 billion in 1988 and 1989.

Given the internal needs, the more relaxed attitude towards external borrowing suggested by recent developments may continue in the near future. Sustained borrowing is hard to justify unless it directly or indirectly creates new capacity to repay itself. Outward oriented joint ventures and consortia will be viewed favorably, since they do not create external debt, but their influence will remain comparatively small in the short run. The number of ventures will continue to grow rapidly, but their average foreign capitalization is likely to be modest. [9]

## The role of the banking system

In addition to the issues raised above, the potential for Soviet export and import expansion is affected by the reform of the Soviet banking system. The restructuring of the Vneshekonombank is probably the most important of these banking reforms from the point of view of altering the structure and volume of Soviet trade. According to the June, 1988 decree, the bank's major responsibilities relating to foreign trade include the following: [10]

- the provision of credit for foreign trade and other external activities of the state;
- dealing in foreign exchange, bullion and other precious metals;
- internal settlements connected with international trade of goods and services; and
- providing hard currency credits to the ministries and enterprises with foreign trade rights.

Currently the bias in granting credits in hard currency favors enterprises and ministries who need investment to produce exports. Repayment is to be provided from hard currency export sales with a credit period of up to eight years. This is in contrast to a two year credit term for current operation costs.

The right to retain a portion of hard currency earnings, a major element of the Soviet trade reforms, has been granted to ministries of the chemical, nonferrous metallurgy, mineral fertilizer, and shipbuilding industries. In general, those products with the higher levels of processing and Soviet value-added carry the higher levels of retention.

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[9] The average foreign capitalization of joint ventures in the Soviet Union have declined, amounting to only $1.5 million in the first three quarters of 1989. ECE. Joint Ventures News, No. 3, 1989.

[10] See the Decree of the Council of Ministers, June 14, 1988, No. 745. As part of the reforms, the following banks were assigned very specific tasks and were understood to be autonomous from the central bank. They include: 1) The Bank for Foreign Economic Activity - Vneshekonombank; 2) The Industrial Construction Bank - Agrobank; 3) The Bank for Household and Municipal Services and Social Development - Zhilsotsbank; and 4) The Bank for Labor Earnings and Credit to the Population -Sberegatelnii Bank.

## The role of joint ventures

In addition to the reorganized banks facilitating the transfer of capital, the other major source of expanded Soviet export potential is joint ventures. While Soviet interest in joint ventures is driven by a desire to expand exports by introducing Western technology and management techniques, Western interest focuses on acquiring access to the large Soviet domestic market.

To prevent the establishment of "Trojan horses," the Soviet Union has attempted to limit the foreign control of its joint venture. Nevertheless, as more Western firms enter the competition "special deals" are always possible. As of December 1988, the general rules for the Soviet joint venture (JV) included:

i) the possibility for a Western partner to hold more than 50 percent of the JV's equity;
ii) the possibility of a non-Soviet as general director;
iii) wage payments made without strict compliance with domestic labor rules;
iv) minimal custom duties on imports used for investment purposes by the JV;
v) costs incurred by the JV staff can be paid in rubles. [11]

These rules are not expected to remain unaltered. This legislation has led to a large number of JVs, primarily in the domestic service sector (**Appendix C**). As of October 1, 1989, the number of Western joint ventures stood at 799, with the largest share from West Germany. [12] The primary focus of these joint ventures is in R&D, engineering, consulting and public relations, consumer services, assembly of personal computers, and providing programming services. Only 10 percent of the joint ventures are involved in producing producer goods. With the impending ruble devaluation these domestically-oriented JVs are bound to lose money, but the JVs in the export sector should gain. [13]

The major drawback to the shift of JVs towards the export sector is the domestic shortages of supplies and manufacturing capacity. Under existing legislation, JVs are outside Soviet planning procedures. This is inducing a number of creative partnerships which, in the long-run, may create the desired market spill-over effects.

[11] Izvestiya, December 11, 1988.

[12] This number represents the total joint ventures with capitalist countries. The overall total, including socialist and mixed donor countries was 933. See Appendix C for details on the distribution.



[13] PlanEcon Report, Vol V, No. 41, October 13, 1989.

**The role of East-West trade**

Reducing U.S. tariffs to MFN levels is likely to have comparatively modest short-term effects, but the longer term effects could be much more important if the reforms improve the export competitiveness of the Soviet Union, which depends in part on the country's willingness and ability to import crucial managerial know-how and technology.

The Soviet Union could use external resources to accomplish the following:

- raise imports to increase internal market competition, stimulate productivity growth, lower costs and dampen inflationary pressures;

- import more industrial inputs to raise production and expand exports.

- quicken the pace of industrialization. Obsolete capital stocks (resulting from among other things, long-standing constraints on capital goods imports) need to be modernized with a component of western technology if the commodity structure and competitiveness of eastern goods and services is to improve.

- facilitate cuts in financial support for loss-making enterprises (a reduction of subsidies by itself can reduce export revenue, and thus reduce import capacity.)

- import more consumer goods to create the necessary incentives to work and generate popular support for the reforms. Experience has shown that, in general, reform efforts have typically been accompanied by accelerating inflation and worsening shortages of certain goods. Domestic sales of imported consumer goods are also seen as a means of absorbing large, inflationary cash balances and reducing budget deficits.

- provide technical assistance designed to promote the expertise required for the functioning of a market economy.

- create a social safety net for those displaced from work. Funding of such a program from general revenues could exacerbate budget deficits which, in many cases, need to be reduced in the interest of macro-economic stability;

- create some minimum level of reserves to help restore confidence in the currency and, ultimately, to restore convertibility;

One should keep in mind, however, that foreign trade liberalization on the part of the Soviet Union, without evident improvement in the internal economy, raises the risk of a more onerous debt burden in the future. Moreover, the breathing space provided by additional resources could temporarily reduce the pressures for economic reforms. This is what happened to many less-developed countries that are currently experiencing problems financing their debt.

As we note above, the Soviet Union is engaged in political and economic restructuring which involves greater reliance on market forces rather than administrative control over costs and prices. The process of change varies considerably across sectors, and republics, but it is certainly the case that the volume and composition of Soviet trade will alter considerably in the next 5 to 10 year period. As yet, the internal developments in the Soviet Union have not had a substantial impact on their economic transactions with Western Europe, North America, or other developed market economies. Given the difficulty of restructuring any economy, and in particular the Soviet economy, one should not expect to find major changes in the composition or volume of Soviet trade in the next 5 years. Joint venture arrangements, which until the late 1980s were few and far between, may now become the key external avenue for the transformation of the Soviet economy.



**3-7**

# Appendix A

## *Current Soviet Ministries and State Committees and Administrative Changes in the U.S.S.R.'s Foreign Trade Structure*

# APPENDIX A

## Current Soviet Ministries and State Committees

In 1989, the Soviet government undertook another phase of top-level organizational restructuring of government ministries and State committees. A number of ministries were eliminated, while others with related activities were combined. **Figures A-1** through **A-4** present the Ministries and State Committees as of July 1989. The ministries and committees in the construction, machine building, chemical, and energy sectors were most affected.

*Ministries eliminated.*-- The ministries for Construction and Materials Industry, along with four regional construction ministries, have been eliminated. In the machine building sector, the following ministries were abolished: the Ministries of Machine Building; Medium Machine Building; Chemical and Petroleum Machine Building; Construction, Road, and Municipal Machine Building; and Machine Tool and Tool Building. The Ministry of Mineral Fertilizer Production and the State Committee for Civil Construction and Architecture were also abolished.

*Ministries consolidated.*-- The Ministry of Chemical Industry and the Ministry of Oil Refining and Petrochemical Industry have been consolidated into the Ministry of Chemical and Oil Refining. The two separate ministries for Oil and Gas were merged into one. [1]

## Administrative changes in the U.S.S.R.'s foreign trade structure

On October 6, 1987, the Communist Party of the Soviet Union (CPSU) Central Committee and the Council of Ministers of the U.S.S.R. passed a resolution on measures to streamline foreign economic activity. **Figure A-5** and **Figure A-6** present the Soviet foreign trade process before and after the reforms.

The main reforms were the elimination of the Ministry of Foreign Trade (to be replaced with a new Ministry of Foreign Economic Relations), and the elimination of *Vneshtorgbank* (to be replaced with the new *Vnesheconombank*). Foreign companies are now able to deal directly with industrial ministries and enterprises through newly-established Foreign Trade Organizations (FTOs) directly in individual ministries and enterprises. Prior to these reforms, foreign businesses could deal only with FTOs in the Ministry of Foreign Trade. **Figure A-7** lists products transferred from the Ministry of Foreign Trade to the new FTOs within industrial ministries, committees, and other organizations.



[1] Business Eastern Europe, Vol. XVIII, No. 29-89, July 17, 1989, p. 227-8.

# CURRENT SOVIET MINISTRIES AND STATE COMMITTEES
(as of July 1989)

**Figure A-1**

**All-Union Ministries (26)**

(Ministry of . . . )

Atomic Energy Industry
Automobile and Agricultural Machine Building
Aviation Industry
Chemical and Oil Refining Industry
Civil Aviation
Coal Industry
Construction of Oil and Gas Enterprises
Defense
Defense Industry
Electronics Industry
Electrotechnical Industry and Instrument Making
Fish Industry
Foreign Economic Relations
General Machine Building
Geology
Heavy Machine Building
Machine Tool and Instrument Industry
Maritime Fleet
Medical Industry
Metallurgy
Oil and Gas Industry
Radio Industry
Railways
Shipbuilding Industry
Transport Construction
Water Resources

**Figure A-2**

**All-Union State Committees (4)**

(State Committee for . . . )

Administration of Product Quality and Standards
Computer Technology and Informatics
Hydrometeorology
Science and Technology

# CURRENT SOVIET MINISTRIES AND STATE COMMITTEES
(as of July 1989) (continued)

Figure A-3

**Union-Republic Ministries (11)**

(Ministry of . . . )

Communications
Culture
Finance
Foreign Affairs
Health
Installation and Special Construction Work
Internal Affairs
Justice
Power and Electrification
Timber Industry
Trade

Figure A-4

**Union-Republic State Committees (15)**

(State Committee for . . . )

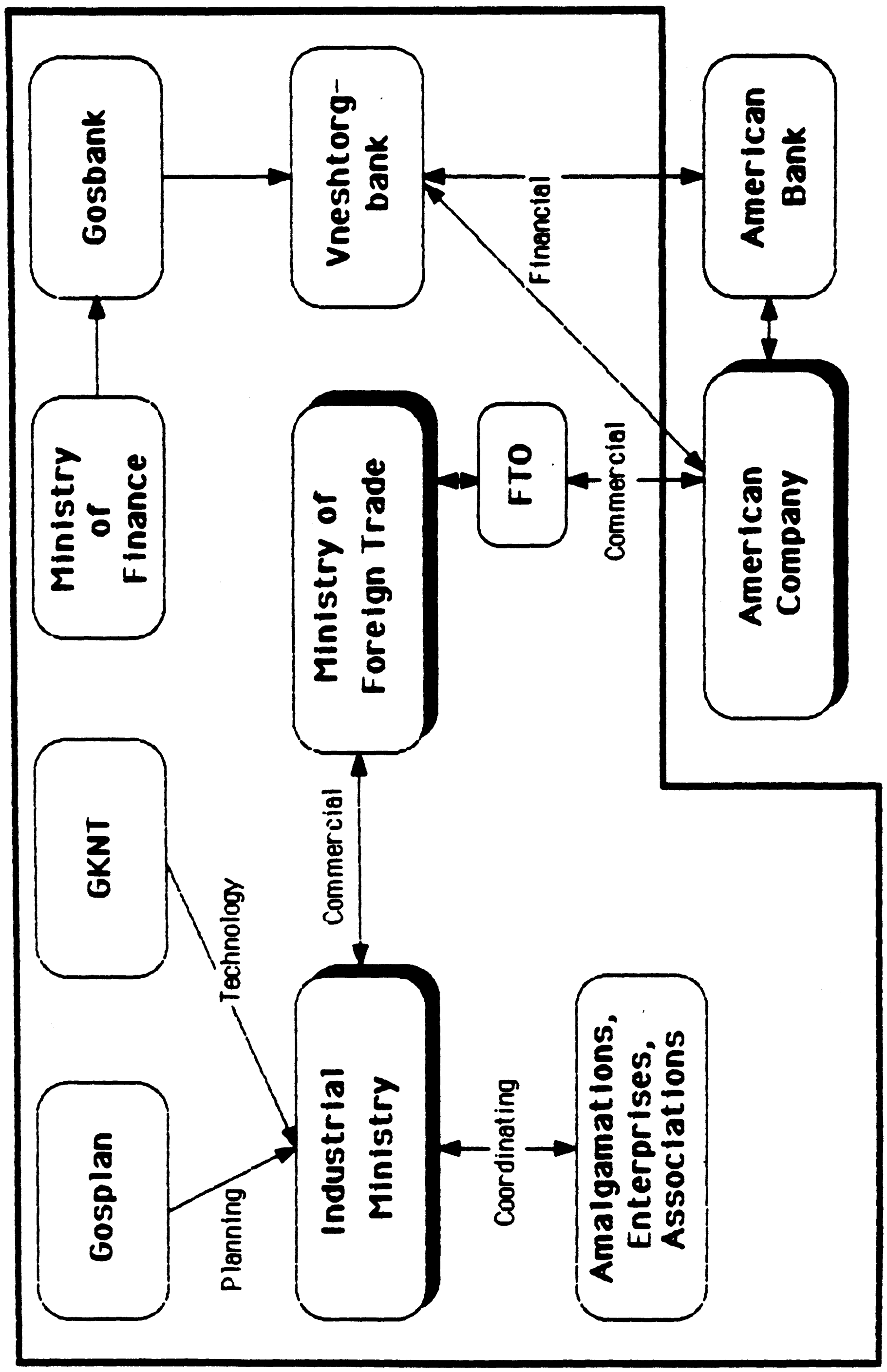
Cinematography
Construction
Environmental Protection
Labor and Social Questions
Material and Technical Supply
Planning
National Education
Physical Culture and Sport
Press
Prices
Safety in the Nuclear Power Industry
State Security
Statistics
Television and Radio Broadcasting
Timber



*Source: Business Eastern Europe, Vol. XVIII, No. 29-89, July 17, 1989, p. 228.*

Figure A-5

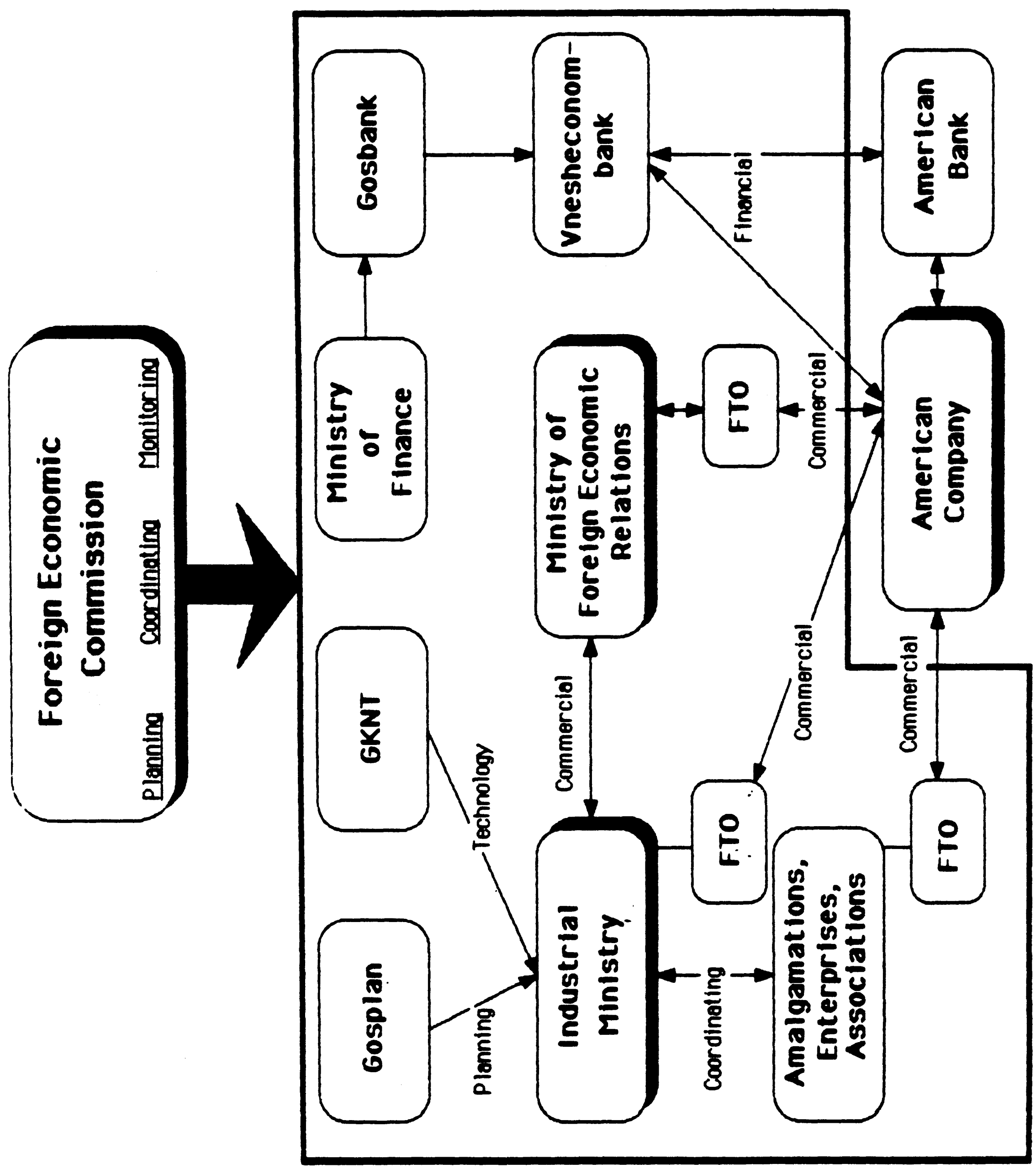
# FOREIGN TRADE PROCESS
## (Before Reforms)




Source: U.S.-U.S.S.R. Trade and Economic Council.

Figure A-6

# FOREIGN TRADE PROCESS
## (After Reforms)




Source: U.S.-U.S.S.R. Trade and Economic Council.

Figure A-7 **PRODUCTS TRANSFERRED FROM THE MINISTRY OF FOREIGN TRADE TO THE NEW FOREIGN TRADE ORGANIZATIONS OF INDUSTRIAL MINISTRIES, COMMITTEES AND OTHER ORGANIZATIONS**

| Product(s) | Formerly Handled by (FTO) | Now Handled by (Ministry/Organization) |
|---|---|---|
| Agricultural, Food and Medical Products | | |
| Animal intestine cases | Sojuzpushnina | USSR State Agroindustrial Committee |
| Bloodstock cattle | Prodintorg | USSR State Agroindustrial Committee |
| Drugs, medicines, pharmaceutical raw materials | Medexport | Ministry of Medical and Biological Industries |
| Frozen fish, various kinds | Prodintorg | Ministry of Fisheries |
| Fish, seafood products, canned fish and crabs | Dalintorg; Lenfintorg; Vostokintorg | Ministry of Fisheries |
| Meat and dairy products, fats, other foodstuffs and flavoring | Prodintorg | USSR State Agroindustrial Committee |
| Medical drugs | Medexport | USSR State Agroindustrial Committee |
| Medical drugs in large packages | Medexport | Ministry of the Chemical Industry |
| Natural fibers | Exportljon | USSR State Agroindustrial Committee |
| Raw materials for production of medical drugs | Exportkhleb; Licensintorg; Prommashimport; Sojuzchimexport; Strojmaterialintorg; Techmashimport; Technopromiport | Ministry of Medical and Biological Industries |
| Seeds and planting materials | Exportkhleb | USSR State Agroindustrial Committee |
| Silk fabric wastes | Novoexport | USSR State Agroindustrial Committee |
| Tobacco | Raznoexport | USSR State Agroindustrial Committee |

| Product(s) | Formerly Handled by (FTO) | Now Handled by (Ministry/Organization) |
|---|---|---|
| Wine and spirits | Sojuzplodoimport | USSR State Agroindustrial Committee |
| Chemical Products | | |
| Chemical products | Sojuzchimexport | Ministry of the Chemical Industry |
| Benzene, toluene, paraffin | Sojuznefteexport | Ministry of the Chemical Industry |
| Chemical gases and agents | Sojuzgazexport | Ministry of the Chemical Industry |
| Chemical product wastes | Novoexport | Ministry of the Chemical Industry |
| Film materials and other materials | Strojmaterialintorg | Ministry of the Chemical Industry |
| Sodium sulfate | Sojuzpromexport | Ministry of the Chemical Industry |
| Synthetic fibers | Exportljon | Ministry of the Chemical Industry |
| Consumer Products | | |
| Appliances and cultural goods, illumination engineering products | Technointorg | Ministry of Electric and Technical Industries |
| Cameras, cine-cameras | Technointorg | Ministry for Instrument Making, Automation and Control Systems |
| Clocks and watches | Technointorg | Ministry for Instrument Making, Automation and Control Systems |
| Cosmetics and raw materials for their production | Sojuzchimexport | USSR State Agroindustrial Committee |
| Electric appliances | Technointorg | Ministry for Instrument Making, Automation and Control Systems |
| Glass tableware, crystal articles | Raznoexport | Ministry of Building Materials |
| Periodicals and non-periodical publications | Mezhdunarodnaya Kniga | USSR State Publishing Committee |
| Philately | Mezhdunarodnaya Kniga | USSR State Publishing Committee |

| Product(s) | Formerly Handled by (FTO) | Now Handled by (Ministry/Organization) |
|---|---|---|
| Silver and amber jewelry | Almazjuvelirexport | Ministry for Instrument Making, Automation and Control Systems |
| Sporting goods, goods for hunting and camping | 12 FTOs (unspecified) | USSR State Committee for Sports |
| Tools for gardening and horticulture | Novoexport | Ministry of Machine Building for Agriculture |
| Ferrous Metals | | |
| "Intermetal" pig iron | Promsyrioimport | USSR State Committee for Supplies |
| Machinery and Equipment | | |
| Agricultural machinery | Traktoroexport | Ministry of Machine Building for Agriculture |
| Air-purification devices | Machinoimport | Ministry of Power Machine Building |
| Automatic equipment for thermoplastic materials | Techmashimport | Ministry for Machine Tool Building and Cutting Tool Industries |
| Automobile-chassis electro-technical lab | Mashpriborintorg | Ministry of Electric and Technical Industries |
| Automobile equipment | Avtoexport | Ministry of Automobile Industry |
| Auxiliary tools | Stankoimport | Ministry of Power Machine Building |
| Bearings | Stankoimport | Ministry of Automobile Industry |
| Boilers | Energomachexport | Ministry of Building Materials |
| Cable products | Raznoimport | Ministry of Electric and Technical Industries |
| Chemical equipment | Techmashexport | Ministry of Chemical and Petroleum Machine Building |
| Completing equipment | Techmashimport | Ministry of Chemical and Petroleum Machine Building |
| Compressors | Aviaexport | Ministry of Chemical and Petroleum Machine Building |

| Product(s) | Formerly Handled by (FTO) | Now Handled by (Ministry/Organization) |
|---|---|---|
| Compressors | Sudoimport | Ministry of Chemical and Petroleum Machine Building |
| Completing equipment for diesel generators, spare parts | Sudoimport | Ministry of Heavy Machine Building |
| Completing equipment for paper-making machines | Prommashimport | Ministry of Chemical and Petroleum Machine Building |
| Copiers and multipliers | Techmashexport | Ministry for Instrument Making, Automation and Control Systems |
| Computers, cash registers, typewriters | Electronorgtechnika | Ministry for Instrument Making, Automation and Control Systems |
| Drilling equipment | Machinoexport | Ministry of Chemical and Petroleum Machine Building |
| Electric engines | Energomachexport | Ministry of Electric and Technical Industries |
| Electric locomotives | Energomachexport | Ministry of Electric and Technical Industries |
| Electric machines, power sources, handling and transport equipment | Machinoexport | Ministry of Electric and Technical Industries |
| Electric machines, technological equipment | Techmashexport | Ministry of Electric and Technical Industries |
| Electrothermal and welding equipment | Metallurgimport | Ministry of Electric and Technical Industries |
| Equipment for power industry | Energomachexport | Ministry of Power Machine Building |
| Equipment for production of illumination engineering products | Technopromimport | Ministry of Electric and Technical Industries |
| Equipment (insulating, saturation, fiber) for illumination engineering industries | Prommashimport | Ministry of Electric and Technical Industries |
| Excavating machines, diesels | Mashinoexport | Ministry of Power Machine Building |
| Extrusion lines for plastics | Techmashimport | Ministry of Electric and Technical Industries |
| Foundry equipment | Metallurgimport | Ministry for Machine Tool Building and Cutting Tool Industries |

| Product(s) | Formerly Handled by (FTO) | Now Handled by (Ministry/Organization) |
|---|---|---|
| Fuellers | Avtoexport | Ministry of Chemical and Petroleum Machine Building |
| Gasoline Engines | Energomachexport | Ministry of Automobile Industry |
| Geophysical equipment and apparatus | Machinoexport | USSR Ministry of Geology |
| Geophysical instruments | Machinoexport | Ministry for Instrument Making, Automation and Control Systems |
| Hydraulic cranes, automobile loaders | Machinoexport | Ministry of Automobile Industry |
| Hydraulic equipment, lubrication fittings | Techmashexport | Ministry for Machine Tool Building and Cutting Tool Industries |
| Illumination engineering products, light sources | Medexport | Ministry of Electric and Technical Industries |
| Illumination engineering products | Raznoexport | Ministry of Electric and Technical Industries |
| Inductosyns | Stankoimport | Ministry for Instrument Making, Automation and Control Systems |
| Industrial equipment | Techmashexport | Ministry of Heavy Machine Building |
| Industrial fittings, equipment sets | Machinoimport | Ministry of Chemical and Petroleum Machine Building |
| Instrumentation | Mashpriborintorg | Ministry for Instrument Making, Automation and Control Systems |
| Machines and equipment | Prommashimport | Ministry for Machine Tool Building and Cutting Tool Industries |
| Machines, forging-pressing equipment, tools, instrumentation | Stankoimport | Ministry for Machine Tool Building and Cutting Tool Industries |
| Medical instruments | Medexport | Ministry for Instrument Making, Automation and Control Systems |
| Metal structures | Metallurgimport | Ministry of Heavy Machine Building |
| Metallurgical equipment | Machinoexport | Ministry for Machine Tool Building and Cutting Tool Industries |

| Product(s) | Formerly Handled by (FTO) | Now Handled by (Ministry/Organization) |
|---|---|---|
| Metalworking and foundry equipment | Avtopromimport | Ministry for Machine Tool Building and Cutting Tool Industries |
| Mining, handling and transport equipment | Machinoexport | Ministry of Heavy Machine Building |
| Power, electrotechnical equipment | Machinoimport | Ministry of Electric and Technical Industries |
| Power and high-voltage equipment | Energomachexport | Ministry of Electric and Technical Industries |
| Power equipment, platform-cars | Energomachexport | Ministry of Heavy Machine Building |
| Presses, mechanical and hydraulic | Stankoimport | Ministry of Heavy Machine Building |
| Pumps, compressors | Techmashexport | Ministry of Power Machine Building |
| Pump-compressor equipment | Energomachexport | Ministry of Chemical and Petroleum Machine Building |
| Reduction gear | Energomachexport | Ministry for Machine Tool Building and Cutting Tool Industries |
| Resolvers | Stankoimport | Ministry of Electric and Technical Industries |
| Spare parts for agricultural machinery | Zapchastexport | Ministry of Machine Building for Agriculture |
| Spare parts for automobiles | Zapchastexport | Ministry of Automobile Industry |
| Spare parts for tractors | Techmashexport | Ministry of Machine Building for Agriculture |
| Storage batteries | Avtoexport | Ministry of Electric and Technical Industries |
| Technological equipment for fish processing, fishery equipment and gear, radionavigation and fish tracking equipment | Machine and engineering organizations; Prommashimport; Sudoimport; Technopromimport; and others | Ministry of Fisheries |
| Tractor engines | Energomachexport | Ministry of Machine Building for Agriculture |
| Tractors, spare parts | Machinoexport | Ministry of Machine Building for Agriculture |
| Turbocompressors | Avtoexport | Ministry of Power Machine Building |

| Product(s) | Formerly Handled by (FTO) | Now Handled by (Ministry/Organization) |
|---|---|---|
| Welding equipment | Energomachexport | Ministry for Instrument Making, Automation and Control Systems |
| X-ray equipment | Techsnabexport | Ministry for Instrument Making, Automation and Control Systems |
| Transportation/Communications | | |
| Advertising during exhibition performances of athletes | Licensintorg | USSR State Committee for Sports |
| Sports vessels and complete gear for them | Sudoimport; Technopromimport | USSR State Committee for Sports |
| Vessels for demolition, repair of vessels, spare parts | Sudoimport | Ministry of Merchant Marine |
| Other | | |
| Cellulose packing material, sarite base | Exportles | Ministry of the Chemical Industry |
| Asbestos | Strojmaterialintorg | Ministry of Building Materials |
| Cement | Strojmaterialintorg | Ministry of Building Materials |
| Glass | Strojmaterialintorg | Ministry of Building Materials |
| Building materials | Strojmaterialintorg | Ministry of Building Materials |
| Fishing net materials | Exportljon | Ministry of Fisheries |
| Graphite | Sojuzpromexport | Ministry of Building Materials |
| Kaoline | Sojuzpromexport | Ministry of Building Materials |
| Talc | Sojuzpromexport | Ministry of Building Materials |
| Licenses and specimens for scientific-technical cooperation | Licensintorg | USSR State Committee for Science and Technology |
| Products made of secondary raw materials | Exportles | USSR State Committee for Supplies |
| Publishing of certain kinds of maps | Mezhdunarodnaya Kniga | Main Administration for Geodesy and Cartography |

Source: U.S.-U.S.S.R. Trade and Economic Council.

# Appendix B

## *Difference Between Column 1 and Column 2 Tariff Treatment*

## Effects of non-MFN treatment

*Difference between Col 1 and Col 2 treatment.*-- Trade between the United States and the Soviet Union during the first 6 months of 1989 was examined by the United States International Trade Commission from the vantage point of duty-rate differences. Between January and June 1989 there were imports in 298 of the nearly 8,800 HTS 8-digit subheadings. Sixty-eight of these subheadings, accounting for 52 percent of total trade in the period, were free of duty. Column 2 rates having a duty less than 5 percent accounted for 84 items or 91 percent of overall imports from the Soviet Union during the period.

Out of almost 8,800 HTS 8-digit subheadings, there were 1,866 subheadings that had either a specific or compound column 2 rate for which an Ad Valorem Equivalent (AVE) had to be estimated. 108 of these items had trade from countries subject to column 2 rates in the first 6 months of 1989. For these 108 subheadings, AVEs were derived by dividing calculated duties by dutiable value. For the other column 2 rates requiring AVEs, the MFN rate AVE was multiplied by the estimated proportional difference between the MFN and column 2 rates. All of the estimated AVEs were calculated using the best information available, but should be considered raw approximations.

The differences calculated between MFN rates and column 2 rates for all HTS subheadings give a reasonable idea of the effect of granting MFN treatment. (Most of the differences are between two ad valorem rates, and not differences between estimated AVEs). The following tabulation shows the number of subheadings falling in specified ranges of differences between MFN and column 2 rates.

| Difference range | Number | Percent of total |
|---|---|---|
| 0.0[1] | 733 | 8.4 |
| 0.0[2] | 137 | 1.6 |
| 0.1-10.0 | 1015 | 11.6 |
| 10.1-20.0 | 1008 | 11.5 |
| 20.1-30.0 | 1757 | 20.0 |
| 30.1-40.0 | 2034 | 23.2 |
| 40.1-50.0 | 796 | 9.1 |
| 50.1-60.0 | 482 | 5.5 |
| 60.1-70.0 | 364 | 4.2 |
| 70.1-80.0 | 275 | 3.1 |
| 80.1-90.0 | 79 | 0.9 |
| 90.1-100.0 | 46 | 0.5 |
| 100.1-125.0 | 20 | 0.2 |
| 125.1-150.0 | 14 | 0.2 |
| 150.1-175.0 | 3 | [3] |
| 175.1-200.0 | 1 | [3] |
| Greater than 200.0 | 2 | [3] |
| Totals | 8766 | 100.0 |

[1] Both the MFN and column 2 rates of duty were free.
[2] The MFN and column 2 rates were equal but not free.
[3] Less than 0.05 percent.

B-1

As the tabulation shows, there is no difference in the rates of duty between column 1 and column 2 for 10 percent of the subheadings.

The following tabulation shows the leading items imported from the Soviet Union during the first 6 months of 1989 and the calculated column 1 and column 2 rates of duty for these items, as well as the difference between the rates. Any assessment of the prohibitive effect of column 2 rates and the likely impact of a move to MFN status for such items is beyond the scope of the investigation.

**U.S. imports from the Soviet Union, valued over $1 million, January–June 1989, with columns 1 and 2 ad valorem equivalents, and differences**

| HTS subheading | Description | Value | General | Col. 2 | Difference |
|---|---|---|---|---|---|
| | | | Percent | | |
| 2710.00.10 | Distillate and residual fuel oils (including blends) .... | $74,158,227 | 0.5 | 1.1 | 0.6 |
| 2710.00.05 | Distillate and residual fuel oils (including blends) .... | 49,541,777 | 0.4 | 1.5 | 1.1 |
| 2814.10.00 | Anhydrous ammonia .... | 41,011,832 | 0.0 | 0.0 | 0.0 |
| 7110.29.00 | Palladium, in semimanufactured forms .... | 32,033,382 | 0.0 | 0.0 | 0.0 |
| 7110.31.00 | Rhodium, unwrought or in powdered form .... | 22,539,092 | 0.0 | 0.0 | 0.0 |
| 7110.39.00 | Rhodium, in semimanufactured forms .... | 18,904,265 | 0.0 | 0.0 | 0.0 |
| 2902.43.00 | p-xylene .... | 11,609,686 | 0.0 | 0.0 | 0.0 |
| 2844.20.00 | Uranium enriched in U235 and plutonium and their com .... | 10,800,000 | 0.0 | 0.0 | 0.0 |
| 9701.10.00 | Paintings, drawings and pastels, other than those of .... | 10,482,107 | 0.0 | 0.0 | 0.0 |
| 2709.00.10 | Petroleum oils and oils from bituminous minerals, cr .... | 10,439,149 | 0.4 | 1.5 | 1.1 |
| 7202.29.00 | Ferrosilicon not containing by weight more than 55% .... | 8,805,741 | 0.0 | 4.5 | 4.5 |
| 3104.20.00 | Potassium chloride .... | 7,980,566 | 0.0 | 0.0 | 0.0 |
| 4301.80.00 | Raw furskins, whole, with or without head, tail or ... | 7,606,226 | 0.0 | 0.0 | 0.0 |
| 2208.90.65 | Vodka, in containers each holding not over 4 liters, .... | 6,793,175 | 2.9 | 50.4 | 47.5 |
| 8701.90.10 | Tractors n.e.s.i., suitable for agricultural use .... | 6,494,223 | 0.0 | 0.0 | 0.0 |
| 7110.21.00 | Palladium, unwrought or in powder form .... | 4,679,163 | 0.0 | 0.0 | 0.0 |
| 5208.12.40 | Woven cotton fabric, 85% or more cotton by weight .... | 4,262,316 | 7.0 | 16.9 | 9.9 |
| 7110.11.00 | Platinum, unwrought or in powder form .... | 4,084,392 | 0.0 | 0.0 | 0.0 |
| 7602.00.00 | Aluminum waste and scrap .... | 3,910,557 | 0.0 | 0.0 | 0.0 |
| 5201.00.20 | Cotton, not carded or combed, having a staple length .... | 2,634,838 | 0.5 | 4.9 | 4.4 |
| 7601.20.90 | Unwrought aluminum alloys, n.e.s.i .... | 2,249,402 | 0.0 | 10.5 | 10.5 |
| 6913.10.50 | Statuettes and other ornamental articles of porcelain .... | 2,013,315 | 9.0 | 70.0 | 61.0 |
| 9706.00.00 | Antiques of an age exceeding 100 years .... | 1,536,659 | 0.0 | 0.0 | 0.0 |
| 1604.30.20 | Caviar .... | 1,481,920 | 15.0 | 30.0 | 15.0 |
| 2208.90.60 | Vodka, in containers each holding not over 4 liters, .... | 1,389,350 | 68.2 | 78.3 | 10.1 |
| 0306.14.40 | Crabs, cooked in shell or uncooked (whether in shell) .... | 1,296,304 | 0.0 | 0.0 | 0.0 |
| 2207.10.60 | Undenatured ethyl alcohol of 80% volume alcohol ... | 1,264,328 | 3.0 | 20.0 | 17.0 |
| 7118.90.00 | Coins, n.e.s.i .... | 1,219,185 | 0.0 | 0.0 | 0.0 |
| 4411.19.20 | Fiberboard, of a density exceeding 0.8 g/cm³, mechan .... | 1,122,228 | 3.0 | 30.0 | 27.0 |
| 3104.90.00 | Mineral or chemical fertilizers, potassic, n.e.s.i .... | 1,046,229 | 0.0 | 0.0 | 0.0 |

Source: Compiled from official statistics of the U.S. Department of Commerce. Ad valorem equivalents computed by the Office of Tariff Affairs and Trade Agreements, U.S. International Trade Commission.

# Appendix C

## *Soviet Joint Ventures*

## THE FIRST 100 U.S.-SOVIET JOINT VENTURES REGISTERED IN THE USSR

| REGISTRATION NUMBER | DATE OF REGISTRATION | U.S. PARTNER | PLANNED BUSINESS ACTIVITY | CAPITAL INVESTMENT IN MILLIONS OF RUBLES BY THE U.S. PARTNER |
|---|---|---|---|---|
| 1. (013) | 11/26/87 | Combustion Engineering | Process Control Systems | 5.00 |
| 2. (021) | 12/29/87 | Management Partnership Intl. | Software, Computers | 3.30 |
| 3. (037) | 4/12/88 | Elan International | Flavors | 0.06 |
| 4. (046) | 5/13/88 | Honeywell | Control Systems | 0.5 |
| 5. (056) | 6/16/88 | Worsham Group | Construction | 3.00 |
| 6. (065) | 7/06/88 | Considar Project Development | Information Systems | 0.03 |
| 7. (092) | 9/02/88 | Tambrands (Great Britain)* | Tampons | 0.52 |
| 8. (104) | 9/21/88 | Unicorn Seminars | Publishing, Shops | 0.98 |
| 9. (108) | 10/10/88 | Interconcepts | Advertising | 1.96 |
| 10. (109) | 10/14/88 | Rank Xerox (Great Britain)* | Copy Center | 0.34 |
| 11. (116) | 11/01/88 | Robert A. Weaver | Management Consulting | 0.02 |
| 12. (118) | 11/02/88 | Tambrands (Great Britain)* | Tampons | 0.54 |
| 13. (147) | 12/02/88 | Dresser Industries | Engineering | 0.15 |
| 14. (159) | 12/24/88 | McDonald's Rests. of Canada* | Restaurants | 7.33 |
| 15. (172) | 12/26/88 | USKO Investment | Consulting | 0.50 |
| 16. (179) | 12/28/88 | Foster Wheeler | Construction/Petroleum | 0.32 |
| 17. (183) | 12/28/88 | American General Resources | Scrap Ships | 0.03 |
| 18. (190) | 12/29/88 | Management Partnership Intl. | Management Training | 0.09 |
| 19. (203) | 1/12/89 | Ogilvy & Mather | Advertising | 0.15 |
| 20. (218) | 1/20/89 | AutoDesk (Great Britain)* | Automatic Design | 0.10 |
| 21. (223) | 1/24/89 | Mobile Fidelity Sound | Concerts | 0.375 |
| 22. (233) | 1/24/89 | Satra (Great Britain)* | New Export Products | 0.10 |
| 23. (240) | 2/07/89 | Phoenix Radiology | Medical Technology | 0.10 |
| 24. (274) | 2/27/89 | SIBIR | Computers | 0.05 |
| 25. (281) | 3/01/89 | ERGO Group | Data Processing | 0.02 |
| 26. (282) | 3/01/89 | Global Technology Group | Advertising, Printing | 5.75 |
| 27. (284) | 3/02/89 | BERUSA | Medical Diagnostics | 0.25 |
| 28. (287) | 3/06/89 | Brownstone Productions | Animated Films | 0.03 |
| 29. (301) | 3/15/89 | Eugene Enterprises | Reindeer Horn Processing | 0.21 |
| 30. (310) | 3/17/89 | GJI | Noninvasive Diagnostics | 0.01 |
| 31. (313) | 3/20/89 | Transatlantic Agency | Hermitage Exhibits | 0.52 |
| 32. (315) | 3/21/89 | Thurston Sails | Sails for Yachts | 0.05 |
| 33. (317) | 3/21/89 | METVAC | Metallurgy Licensing | 0.34 |
| 34. (335) | 3/24/89 | Marine Resources | Shipbuilding/Aquaculture | 0.08 |
| 35. (339) | 3/27/89 | Hemisphere Publishing | Scientific Publishing | 0.15 |
| 36. (346) | 3/28/89 | PepsiCo Eurasia | Pizza Huts | 0.91 |
| 37. (363) | 3/31/89 | Amsovinvest | Electronics | 0.30 |
| 38. (387) | 4/17/89 | AMEX Import-Export | Consumer Products | 2.10 |
| 39. (389) | 4/19/89 | Ollsten Trading | Software | 0.01 |
| 40. (393) | 4/20/89 | American Laboratories | Condoms, Syringes | 1.28 |
| 41. (400) | 4/21/89 | Columbus | Entertainment | 0.37 |
| 42. (401) | 4/21/89 | BERUSA | Chemicals, Construction | 0.34 |
| 43. (411) | 4/27/89 | BERUSA | Personal Computers | 0.05 |
| 44. (412) | 4/27/89 | World Ethnic Art Entertainment | Restaurants, Trade | 0.17 |
| 45. (415) | 4/27/89 | Global Technology Group | Personal Computers | 3.35 |
| 46. (423) | 5/03/89 | Considar Project Development | Recycle Waste Oil | 3.00 |
| 47. (429) | 5/05/89 | Spec Intl. | Personal Computers | 0.13 |
| 48. (433) | 5/10/89 | ASTRA Consulting Intl. | Personal Computers | 0.06 |
| 49. (455) | 5/17/89 | Young & Rubicam | Advertising | 0.37 |
| 50. (456) | 5/17/89 | Ruff Fur Dressing | Fur Processing | 0.72 |
| 51. (465) | 5/22/89 | Cameron Iron Works (W. Ger.)* | Drilling Technology | 3.50 |
| 52. (474) | 5/24/89 | APCO | Information, Consulting | 0.30 |
| 53. (478) | 5/24/89 | East-West Arts & Entrtmnt | Cinema, Concerts | 0.03 |
| 54. (483) | 5/24/89 | Winsome Food Technology | Fruit Juice | 1.50 |
| 55. (492) | 5/26/89 | IDG Communications | Information, Exhibitions | 0.18 |
| 56. (497) | 5/29/89 | Douglas Production Intl. | Printing | 0.04 |
| 57. (508) | 5/29/89 | Perch Electronic | Consumer Goods, Radios | 1.02 |
| 58. (509) | 5/29/89 | Carlisle Syntec Systems | Roofing Materials | 23.57 |
| 59. (514) | 5/30/89 | Hudson Street Intl. | Patents, Licensing | 0.04 |
| 60. (529) | 6/01/89 | Crystalltec Intl. | Computer Services | 0.05 |
| 61. (531) | 6/01/89 | Summit Ltd. | Production of Corn and Soy | 0.13 |
| 62. (538) | 6/01/89 | Sheldon Trading Co. | Gas Marketing | 0.01 |
| 63. (542) | 6/02/89 | NEVA Ltd. | Fast Food | 0.02 |
| 64. (546) | 6/02/89 | User Intl. | Computers | 0.84 |
| 65. (562) | 6/05/89 | Transcisco Industries | Railway Cars | 0.32 |
| 66. (613) | 6/16/89 | Kent Management Group | Executive Training | 0.08 |
| 67. (614) | 6/16/89 | JVT (David F. Kelley) | Consumer Goods | 0.04 |
| 68. (621) | 6/16/89 | Classica Overseas Cyprus | Consumer Goods | 0.11 |
| 69. (626) | 6/20/89 | Cook Products Intl. | Toys, Trading | 0.14 |
| 70. (627) | 6/20/89 | Economic Devel. Partners Corp. | Construction | 23.80 |
| 71. (629) | 6/20/89 | Kofman Equities Ltd. | Consumer Goods | 0.15 |
| 72. (632) | 6/20/89 | Slava Intl. | Tourism | 0.03 |
| 73. (649) | 6/23/89 | ITI Trading Intl. Inc. | Consumer Goods, Tourism | 4.93 |
| 74. (651) | 6/23/89 | King Furniture Manufacturing | Consumer Goods | 0.11 |
| 75. (659) | 6/27/89 | Hemisphere | Printing | 0.10 |
| 76. (675) | 6/28/89 | Space Commerce Corp. | Scientific Research, Design | 0.10 |
| 77. (677) | 6/28/89 | Matrix Corp. | Personal Computers | 0.30 |
| 78. (691) | 7/05/89 | ANSAT | Printing | 0.43 |
| 79. (698) | 7/07/89 | Sabey Corp. | Consumer Goods, Printing | 1.20 |
| 80. (709) | 7/13/89 | P. Citron Trading | Consumer Goods | 0.01 |
| 81. (735) | 7/28/89 | Polaroid Intl. BV | Cameras | 0.90 |
| 82. (760) | 8/02/89 | Olympian Embroidery | Consumer Goods | 0.25 |
| 83. (761) | 8/02/89 | Lotus Trading Intl. | Construction | 0.10 |
| 84. (765) | 8/04/89 | Alba Inc. | Consumer Goods | 0.88 |
| 85. (773) | 8/04/89 | Great Lakes Paper Company | Building Materials | 1.26 |
| 86. (779) | 8/04/89 | Intl. Joint Venture Consultants | Intermediary Services | 0.19 |
| 87. (788) | 8/08/89 | Pen Enterprises | Personal Computers | 0.15 |
| 88. (793) | 8/09/89 | Dentsply Intl. | Dental Fillings | 0.94 |
| 89. (820) | 8/15/89 | World Crafts Inc. | Building Materials | 15.00 |
| 90. (823) | 8/17/89 | Interorg | Scientific Research | 0.03 |
| 91. (831) | 8/17/89 | Alex Import-Export | Consumer Goods | 0.60 |
| 92. (839) | 8/22/89 | Atlantica DG Electr. Contr. | Medical Goods | 0.02 |
| 93. (841) | 8/22/89 | TIW Systems | Personal Computers | 0.05 |
| 94. (843) | 8/23/89 | R & L Intl. C C Food Prod. | Foodstuffs | 0.10 |
| 95. (847) | 8/24/89 | F D Processing & Machinery | Machine Building | 0.02 |
| 96. (873) | 8/31/89 | Forbes & Co. | Machine Building | 0.55 |
| 97. (878) | 9/01/89 | Aricard Inc. | Printing | 8.06 |
| 98. (883) | 9/01/89 | Phargo Information Inc. | Printing, PCs | 0.25 |
| 99. (892) | 9/05/89 | MG Import-Export Intl. | Intermediary Services | 0.06 |
| 100. (913) | 9/11/89 | B & D Import | Restaurants | 0.51 |

The preceding list was compiled from Soviet Ministry of Finance's lists of registered joint ventures in the USSR. The company names were transliterated from Russian and where possible cross-referenced with English language reports. Some are abbreviated.

The list was prepared by *Interflo: A Soviet Trade News Monitor* in Maplewood, N.J., and the Brown University Center for Foreign Policy Development Project on Soviet Foreign Economic Policy & International Security in Providence, R.I., with translations by Gerard Mryglot of New York City. The Harvard Russian Research Center List of Registered Soviet Joint Ventures was a major source of English-language data. ASTERISKS (*) INDICATE JOINT VENTURES FORMED BY FOREIGN AFFILIATES OF U.S. COMPANIES



Source: Natalia Wolniansky, "Tales From the Front: Mastering the Soviet Chessboard," Management Review, March 1990, pp. 22-23.
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## WHERE THE DEALS ARE

Soviet Joint Ventures Registered As of October 1, 1989

**NUMBER OF SOVIET JOINT VENTURES SIGNED WITH FOREIGN PARTNERS**

| Foreign Partners | Number of Joint Ventures | Charter Fund (Millions of Rubles) |
|---|---|---|
| Socialist Countries | 105 | 352.1 |
| Capitalist Countries | 748 | 2036.2 |
| Combined Socialist and Capitalist Partners | 12 | 26.2 |
| Developing Countries | 60 | 63.2 |
| Combined Developing and Capitalist Partners | 8 | 27.9 |
| Total: | 933 | 2505.6 |

**DISTRIBUTION OF JOINT VENTURES BY ECONOMIC SECTOR**

| | Quantity | Percent |
|---|---|---|
| Scientific Research, Engineering, Consulting-Intermediary Services and Executive Training | 287 | 30.5 |
| Production of Computers and Software | 122 | 13.0 |
| Construction and Production of Building Materials | 60 | 6.4 |
| Consumer Goods | 58 | 6.2 |
| Trade and Restaurants | 58 | 6.2 |
| Tourism, Hotels and Transport Services | 53 | 5.6 |
| Chemical-Forestry | 47 | 5.0 |
| Medicine, Healthcare | 46 | 4.9 |
| Agro-Industrial Complex | 41 | 4.4 |
| Machine Building (Excluding production of computers) | 40 | 4.3 |
| Cinema, Video and Concerts | 37 | 3.9 |
| Light industry | 31 | 3.3 |
| Printing | 25 | 2.7 |
| Transportation and Communications | 18 | 1.9 |
| Fuel-Energy | 5 | .05 |
| Metallurgy | 5 | .05 |
| Total: | 933 | 100.0* |

*Numbers may not add up to 100% due to rounding.

Source: The Foreign Economic Commission of the Council of Ministers of the USSR Department of Joint Ventures

COMPILED BY INTERFLO A SOVIET TRADE NEWS MONITOR

## CHARTER FUND INVESTMENT

**PARTICIPATION OF COUNTRIES IN JOINT VENTURES IN THE USSR**

| Socialist—124 Countries | Developing—69 Countries | Capitalist—794 Countries |
|---|---|---|
| Bulgaria—28 | Afghanistan—1 | Australia—10 |
| China—14 | Bangladesh—1 | Austria—65 |
| Czechoslovakia—4 | Brazil—3 | Belgium—9 |
| East Germany—1 | Cyprus—8 | Canada—23 |
| Hungary—22 | Hong Kong—1 | Denmark—2 |
| North Korea—8 | India—15 | France—35 |
| Poland—26 | Iran—1 | Finland—110 |
| Vietnam—3 | Jordan—2 | Great Britain—65 |
| Yugoslavia—18 | Kuwait—3 | Greece—6 |
| | Lebanon—2 | Ireland—3 |
| | Malta—1 | Italy—61 |
| | Oman—1 | Japan—20 |
| | Pakistan—2 | Liechtenstein—12 |
| | Panama—3 | Luxembourg—6 |
| | Saudi Arabia—1 | Netherlands—16 |
| | Singapore—9 | New Zealand—3 |
| | South Korea—1 | Norway—4 |
| | Syria—3 | Spain—13 |
| | Thailand—1 | Sweden—38 |
| | United Arab Emirates—3 | Switzerland—43 |
| | Venezuela—7 | United States—97 |
| | | West Germany—153 |

Soviet joint ventures registered as of October 1, 1989.

COMPILED BY INTERFLO

## CHARTER FUND INVESTMENT

Soviet Joint Ventures Registered As of October 1, 1989

**INVESTMENTS IN CHARTER FUND**

| | Millions of Rubles | Millions of Dollars | % of Investment By Partner |
|---|---|---|---|
| *Soviet Partner* | 1439.1 | — | 57.4 |
| *Foreign Partner* | 1066.5 | — | 42.6 |
| -Socialist Countries | 172.8 | — | 6.9 |
| -Capitalist Countries | 862.1 | 1436.8 | 34.4 |
| -Developing Countries | 31.7 | 52.8 | 1.3 |
| Total: | 2505.6 | — | 100.0 |

* Investments in foreign currency are converted at the USSR GosBank rate on the date that the agreement establishing the joint venture was signed.

**JOINT VENTURES BY SIZE OF CHARTER FUND**

| | Quantity | Percent |
|---|---|---|
| Up to 1 Million Rubles | 546 | 58.1 |
| From 1 to 5 Million Rubles | 256 | 27.2 |
| From 5 to 10 Million Rubles | 59 | 6.3 |
| Above 10 Million Rubles | 72 | 7.7 |
| Total: | 933 | 100.0* |

*Totals may not add to 100% due to rounding.

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Source: Natalia Wolniansky, "Tales From the Front: Mastering the Soviet Chessboard," Management Review, March 1990, pp. 25,26,28. Reprinted with permission.

# Appendix D

## *Chronology of U.S. - U.S.S.R. Trade: 1974-1984*

## CHRONOLOGY OF U.S.-U.S.S.R. TRADE DURING THE DECADE PRECEDING PERESTROIKA: 1974-1984

### 1974

**MAY 21-22** The fourth session of the Joint U.S.-USSR Commercial Commission was held in Washington.

**JUN 22** President Nixon arrived in Moscow for summit talks.
- An Energy Cooperation Agreement was signed on June 28.
- A long-term (10-year) agreement to facilitate economic, industrial, and technical cooperation (EITCA) was concluded on June 29. This included a business facilitation clause and creation of a working group of experts to regularly exchange information which helps U.S. firms and Soviet foreign trade organization to identify projects for economic cooperation. The agreement required no Congressional authorization.

**JUN 25** Before the passage of a joint House-Senate resolution extending the expiration date of the Export-Import Bank Act of 1945, Export-Import Bank President Casey in a letter to Senator Byrd provided assurance that the Bank would not extend further financing to the Soviet Union until Congress had decided what policies the Bank should follow in this regard and enacted the legislation pending before the Banking, Housing, and Urban Affairs Committee.

**JUL 19** Exports of crime control and detection commodities to the Soviet Union (and other Communist countries) were made subject to specific controls.

**OCT 19** Treasury Secretary Simon announced that arrangements had been worked out to sell the Soviets 2.2 million metric tons of grain in return for a Soviet promise not to but any more American grain until the summer of 1975.

### 1975

**JAN 3** -- The Trade Act of 1974 (P.L. 93-618) was enacted, containing several provisions affecting trade with Communist countries. Among them, the Soviet Union was affected by the provisions that (a) reaffirmed the existing suspensions of the MFN status but provided for its possible reinstatement to those "nonmarket economy" (NME) countries whose emigration policy and practice are relatively free of arbitrary obstacles and requirements, and extended this "freedom-of-emigration" requirement ("Jackson-Vanik Amendment") also to U.S. Government export credits, and credit and investment guaranties (enacted in response to the Soviet Union's imposition, in August 1972, and subsequent relaxation, of very restrictive conditions for

**CHRONOLOGY OF U.S.-U.S.S.R. TRADE DURING THE DECADE PRECEDING PERESTROIKA: 1974-1984** (continued)

**JAN 3** (cont.) emigration of Soviet citizens to non-Communist countries); (b) provided for a special "market disruption" procedure (similar to but less favorable to the affected countries than the normal import-relief procedure) to remedy injurious effects of imports, applicable only to imports from Communist countries; (c) established a special alternative method, applicable only to imports from "State-controlled-economy" (SCE) countries, for determining, in antidumping investigations, the foreign market value of a like product on the basis of its production cost in a "surrogate" non-SCE country. The Soviet Union was also included in the list of presumed developed countries ineligible for the benefits of the generalized system of preferences.

Section 613 of the Act limited to $300 million the aggregate amount of loans, guarantees and insurance in connection with exports to the Soviet Union that may be extended without prior Congressional approval by a U.S. agency, other than the Commodity Credit Corporation.

**JAN 4** -- Section 4 of the Export-Import Bank Amendments of 1974 (P.L. 93-646) required the President to make a separate determination of national interest and report thereon to the Congress for each credit transaction subject to the restriction in section 2(b)(2) of the Ex-Im Bank Act (see entry for January 6, 1964) amounting to $50 million or more. Section 8 of the same Act limited to $300 million the aggregate amount of Ex-Im Bank's loans and/or financial guarantees for exports to the Soviet Union, and to $40 million the share of this aggregate amount intended for products or services for production, processing, or distribution of fossil fuel energy sources, unless the President determines that a higher amount is in the national interest, submits a report thereon to the Congress, and the Congress approves it by concurrent resolution.

**JAN 14** Secretary of State Kissinger announced that the USSR had rejected a trade relationship with the United States based on the Trade Act of 1974 and would not bring into force the 1972 Trade Agreement.

**APR 10-11** The fifth session of the Joint U.S.- USSR Commercial Commission was held in Moscow. The U.S. side affirmed the determination of the Administration to work with Congress in obtaining enactment of legislation that would make possible normalization of trade

**JUN 27** President Ford addressed to chairmen of four Congressional committees concerned with trade legislation a letter urging a revision of East-West trade legislation to make possible improved trade ties with communist countries. In July a Senate delegation conveyed the contents of the letter to Soviet officials in Moscow.

**CHRONOLOGY OF U.S.-U.S.S.R. TRADE DURING THE DECADE PRECEDING PERESTROIKA: 1974-1984** (continued)

**AUG 11** Agriculture Secretary Butz asked grain exporters to voluntarily withhold future grain sales to the Soviet Union until their effect could be better ascertained.

**SEP 9** The Ford Administration announced that all future grain sales to the Soviet Union would be halted until mid October.

**OCT 20** --Agreement on the Supply of Grain by the United States was signed with the Soviet Union and entered into force (through September 30, 1981). The agreement set a minimum of 6 million metric tons of corn and wheat to be purchased annually by the Soviets (maximum of 8 million mt) with further purchases subject to bilateral consultation. The agreement was extended for additional 1-year periods on August 5, 1981, and August 20, 1982 (through September 30, 1983). Replaced by agreement of agreement of August 25, 1983.

**DEC 29** --Maritime agreement was signed with the Soviet Union, and entered into force on January 1, 1976, for years, replacing the expiring agreement of October 14, 1972. As part of "Polish sanctions" (see entry for December 30, 1981), the 1975 agreement was not renewed upon its expiration.

**1976**

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**MAR 16** The United States and Soviet Union agreed to recess negotiations on all oil agreement. Negotiations, which had been taking place in Washington since January 27, had reached an impasse over acceptable formulas for oil prices and shipping rates.

**SPRING** The United States declined to schedule the sixth session of the joint Commercial Commission and postponed other bilateral meetings in response to Soviet/Cuban intervention in Angola.

**1977**

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**APR** President Carter announced that the CIA had predicted that Soviet oil production would decline, forcing the USSR to compete with the rest of the world for Middle Eastern oil.

**JUN 9-10** The sixth session of the Joint U.S.-USSR Commercial Commissions was held in Washington.

**CHRONOLOGY OF U.S.-U.S.S.R. TRADE DURING THE DECADE PRECEDING PERESTROIKA: 1974-1984** (continued)

**1978**

| | |
|---|---|
| **JUL** | The United States denied an export license for a Sperry Univac computer ordered by TASS for use at the 1980 Olympics. This action (and the new licensing requirements for oil and gas equipment imposed August 1) reflected a deterioration in U.S.-Soviet relations connected with harsh Soviet treatment of dissidents, the arrest of a U.S. businessman, and the trial of two American reporters in Moscow. |
| **AUG 1** | The Department of Commerce placed foreign policy export controls on oil and gas equipment and technology. Export to the Soviet Union of equipment and technology for oil and gas exploration and production now required a validated license. (The Department followed a policy of issuing licenses for these items with the exception of the periods January-March 1980 and January-November 1982 and, for technology, after January 1980.) |
| **AUG 31** | President Carter called for a review of a license issued earlier to Dresser Industries for export of a drill bit plant to the USSR. |
| **SEP 6** | President Carter reaffirmed the issuance of the Dresser license. |
| **NOV 3** | Occidental Petroleum signed contracts worth approximately $250 million with Soyuzpromexport and Soyuzchimexport for sale of superphosphoric acid used in liquid fertilizer production and purchase of ammonia and urea. These were the first major chemical sales contracts implementing the 20-year fertilizer exchange agreement between Occidental and the Soviet Ministry of Foreign Trade signed in 1973. |
| **DEC 4-5** | The seventh session of the Joint U.S.-USSR Commercial Commission was held in Moscow. |

**1979**

| | |
|---|---|
| **JUN 16** | President Carter and Soviet President Brezhnev held a summit meeting in Vienna. In the Summit Communique both sides confirmed the importance of trade in the development of bilateral ties. |

**CHRONOLOGY OF U.S.-U.S.S.R. TRADE DURING THE DECADE PRECEDING PERESTROIKA: 1974-1984** (continued)

**SEP 29** -- The Export Administration Act of 1979 (P.L. 96-72), a new export control law, was enacted, clarifying many of the existing provisions, and providing clear distinction among the three purposes of export control (short supply, national security, foreign policy), with limitations on the use of foreign-policy controls. It also repealed the Battle Act.

**OCT 11** The United States International Trade Commission determined that anhydrous ammonia imports from the USSR were causing, or threatening to cause, market disruption.

**DEC 11** President Carter announced that he had decided not to provide import relief in connection with imports of Soviet ammonia.

**DEC**
(last week of) The Soviet Union invaded Afghanistan.

**1980**

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**JAN 4** President Carter announced the following sanctions against the Soviets in response to the invasion of Afghanistan:
-An embargo on future grain exports (and other livestock and feed-related products), involving cancellation of an offer of 17 million metric tons (mmt) of wheat and corn but the allowance of delivery of the 8 mmt covered under the 1975 Agreement;
-Suspension of licensing of all high technology and other products requiring validated export licenses as well as all outstanding licenses, pending a review of licensing by an interagency committee chaired by Secretary of Commerce Klutznick;
-Reduction of Soviet fishing privileges in U.S. waters;
-Limitation of Aeroflot service to the United States.

**JAN 7** As part of these sanctions, the United States also suspended the meetings of the Joint U.S.-USSR Commercial Commission which were not resumed until May 1985.

**JAN 9** International Longshoremen's Association (I.L.A.) announced a boycott of all Soviet cargo and/or ships at ports from Maine to Texas. This led over the next year to sharp reduction of Soviet liner service to the U.S. East Coast and Gulf ports, and the shifting of bulk cargoes to third-flag vessels.

**JAN 18** President Carter imposed a quota on imports of Soviet ammonia in 1980 and remanded the case to the International Trade Commission.

**CHRONOLOGY OF U.S.-U.S.S.R. TRADE DURING THE DECADE PRECEDING PERESTROIKA: 1974-1984** (continued)

**JAN 24** In the climate of "Afghanistan sanctions" President Carter, by proclamation, imposed a 1-year absolute quota of 1 million short tons on imports of anhydrous ammonia from the Soviet Union, under the authority of the "market disruption" provision (sec. 406) of the Trade Act of 1974. The action was taken after the President requested (on January 18, 1980) the U.S. International Trade Commission (ITC) to initiate a section 406 investigation of possible market disruption of such imports. Quota was imposed under the emergency provision of the market disruption law and on the basis of an affirmative ITC determination of market disruption in an earlier case involving anhydrous ammonia from the Soviet Union (October 11, 1979), in which, however, the President had determined that remedial action would not be in the national economic interest. After the ITC found (on March 20, 1980) no market disruption in the new case, the imposition of the quota was automatically voided.

**FEB 1** Embargo on export to some agricultural products was lifted, but they remained under the validated license requirement.

**FEB 4** Exports of Phosphatic rock, phosphoric acid, and phosphatic fertilizers to the Soviet Union were placed under foreign-policy controls.

**FEB 25** The United States embargoed exports and re-exports from the other countries of U.S.-origin phosphate rock, phosphoric acid, and phosphate fertilizers to the USSR. This followed an effective suspension in early February when the Commerce Department required validated licenses and suspended issuance of such licenses (previously, phosphates could be exported under general license).

**MAR 13** The Department of Commerce announced that the President was asking all U.S. companies to cooperate with his call for U.S. non-participation in the 1980 summer Olympics in Moscow by voluntarily withdrawing products relating to the Olympics from export to the Soviet Union.

**MAR 18** The Department of Commerce announced that a review of export control policy had been completed and that the President had decided on more restrictive criteria to be used in controlling exports of high technology to the Soviet Union. The Administration began a case-by-case review of outstanding export license and pending applications.

**MAR 20** The International Trade Commission reversed an earlier ruling and found that market disruption did not exist as a results of imports of Soviet ammonia. The quota imposed in January was lifted.

**CHRONOLOGY OF U.S.-U.S.S.R. TRADE DURING THE DECADE PRECEDING PERESTROIKA: 1974-1984** (continued)

**MAR 28** The Secretary of Commerce announced that, at the direction of the President, he was barring exports of U.S. goods and technology to be used at the 1980 summer Olympics in Moscow as well as other transactions and payments associated with Olympic-related exports.

**MAY 9** Exports of truck engine assembly lines and their parts and components for the Kama River truck complex in the Soviet Union were placed under foreign-policy controls, and the general policy to deny licenses for such exports was established.

**MAY 31** The United States approved Soviet purchases of up to 8 mmt of corn and wheat during the fifth and final year of the U.S.-Soviet Grain Agreement.

**JUL 2** Regulations came into force permitting the licensing of exports of 8 mmt of wheat and corn to the Soviet Union during the last (5th) year (October 1, 1980 - September 30, 1981) of the grain agreement of 1975.

**JUL 3** Presidential candidate Ronald Reagan endorsed efforts by a group of Congressmen to lift the grain embargo.

**JUL 10** Argentina signed an agreement to provide the Soviet Union with 22.5 mmt of soybeans, corn and sorghum during the five years beginning Jan. 1, 1981.

**NOV 14** Secretary of Commerce Klutznick announced approval of a validated license for export by Caterpillar of 200 pipelayers (worth about $80 million) to the USSR for use on the Yamal pipeline.

**NOV 28** The Department of Commerce revoked a license previously issued to Dresser Industries for exports of technical data for a drill bit plant. The license had been among those suspended in January.

**DEC 23** President-elect Reagan's nominee for Secretary of Agriculture, John Block, announced that he would recommend lifting the partial grain embargo at an appropriate time.

**1981**

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**APR 24** President Reagan lifted the grains and phosphates embargoes. The International Longshoremen's Association lifted its boycott of grain destined for the Soviet Union. (The boycott of other cargoes remained until June.)

**CHRONOLOGY OF U.S.-U.S.S.R. TRADE DURING THE DECADE PRECEDING PERESTROIKA: 1974-1984** (continued)

**JUL 19-21** In response to an initiative by President Reagan, the participants at the Ottawa Summit agreed to consult on improving the system of controls on trade in strategic goods and technology with the USSR. A high-level meeting was planned in CoCom in the fall. President Reagan also raised concerns about security implications of the proposed Western Europe-USSR Yamal gas pipeline.

**JUL 31** The Department of Commerce announced approval of a validated license for Caterpillar for exports of 100 pipelayers (worth about $40 million) for use on pipelines other than the Yamal line. Caterpillar had requested this amendment to its November 1980 licenses.

**AUG 3** The United States and the Soviet Union extended the current Grains Agreement for one year from October 1, 1981 and agreed to plan for early negotiations in 1982 on a new agreement.

**DEC 29** Citing Soviet complicity in the repression in Poland, President Reagan announced the following sanctions on economic relations with the USSR:
--Suspension of all Aeroflot service;
--Closing of the Soviet Purchasing Commission (formerly the Kama Purchasing Commission);
--Suspension of issuance or renewal of all validated export licenses for the USSR;
--Postponement of negotiations on a new long-term grain agreement;
--Expansion of the list of oil and gas equipment requiring validated export licenses and suspension of the issuance of such licenses;
--Non-renewal of exchange agreements for energy and technology.

**DEC 31** The Maritime Agreement expired.

**1982**

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**JAN 11** NATO condemned the Soviet Union for its active support of "the systematic suppression" in Poland and warned that Western Europe might join the United States in imposing economic sanctions. The allies said that they would remain in close touch and "not undermine the effect of each other's measures. "They endorsed the three conditions on Poland set forth by President Reagan in December: that martial law must be lifted, the detainees released, and a dialogue restored between the government, the church, and Solidarity.

**JAN 13** As part of "Polish sanctions," the Soviet Purchasing Commission was closed at the request of the U.S. Government.

**CHRONOLOGY OF U.S.-U.S.S.R. TRADE DURING THE DECADE PRECEDING PERESTROIKA: 1974-1984** (continued)

**JAN 19** President Reagan stated that the situation in Poland was deteriorating and that he would not "wait forever" for an improvement. In response, the Reagan Administration was discussing additional steps or sanctions.

**JAN 20** CoCom began a two-day high-level meeting on tightening of controls on strategic trade with the Soviet Union pursuant to an agreement at the Ottawa Summit.

**MAR** Under Secretary of State Buckley began a series of meetings with European officials on credit and energy policy vis-a-vis the Soviet Union. The United States sought to increase the exchange of information on credit extensions and establish a mechanism for credit restriction.

**MAR 1** Range of truck manufacturing equipment for the Kama River plant subject to export controls was expanded, and controls were extended to equipment for the ZIL ("Likhachev plant").

**APR 20** In a case connected with the 1980 International Longshoremen's Association boycott of Soviet cargo, the Supreme Court affirmed that a refusal by an American longshoremen's union to unload cargoes shipped from the Soviet Union was an illegal secondary boycott under the National Labor Relations Act, as amended.

**JUN 5-6** At the Versailles Summit President Reagan proposed that the participants agree to limit and raise the cost of credits for the Soviet Union.

**JUN 10** NATO heads of government and state agreed to "take steps necessary to restrict the transfer of military relevant technology to the Warsaw Pact" and to approach economic relations with the Soviet bloc in a "prudent and diversified manner."

**JUN 22** Foreign-policy controls on exports of oil and gas industry equipment to the Soviet Union were extended extraterritorially to apply also to foreign-origin products and technical data exported by U.S.-owned or controlled foreign firms, and to all foreign-produced products of U.S.-origin technical data regardless of the nationality of the firm's owner.

**JUN 30** President Reagan signed a Congressional Joint Resolution extending for one year the U.S.-USSR Governing International Fishery Agreement.

**JUL 14** The European Community lodged a formal protest to the U.S. over the Reagan Administration's decision to extend sanctions to U.S. companies in Western Europe.

**CHRONOLOGY OF U.S.-U.S.S.R. TRADE DURING THE DECADE PRECEDING PERESTROIKA: 1974-1984** (continued)

| | |
|---|---|
| **AUG 2** | The Soviet Union accepted President Reagan's offer of a one-year extension of the current grain agreement. |
| **AUG 13** | Senator Jake Garn (R-Utah) introduced legislation which would move export control and administration functions into a new office of strategic trade. |
| **NOV 13** | Export control measures taken on December 30, 1981, and June 22, 1982 as part of "Polish sanctions" were rescinded. (Controls on exports of oil and gas equipment imposed on August 1, 1978, remained in force.) |

**1983**

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|---|---|
| **JAN 21** | Embargo on trade and other transactions related to the 1980 Summer Olympics in Moscow was allowed to lapse. |
| **FEB** | Reagan Administration split over what to do about extending Export Administration Act. |
| **APR 22** | President Reagan announced intention to renegotiate long-term grain agreement with USSR. Soviet Union agreed to negotiate. |
| **AUG 25** | Agriculture Secretary John Block signed the new long-term grain agreement in Moscow. The five-year agreement imposes a minimum of nine mmt of wheat and corn yearly. |
| **SEP 30** | After months of debate, the Senate avoided a lapse in the Export Administration Act by agreeing to a 14-day extension of the old Act. |
| **OCT 14** | Declaring a national economic emergency, President Reagan invoked the International Emergency Economic Powers Act to continue the authorities of the Export Administration Act. Congress still unable to agree on new Act. |
| **NOV 18** | Still deadlocked on the new Act, Congress passed legislation to extend the 1979 Export Administration Act through the end of February 1984. |
| **DEC 21** | Imports of un-fabricated nickel-bearing materials (ore and matte, primary nickel, basic shapes and forms, waste and scrap, nickel-alloy basic shapes and forms, nickel-containing stainless-steel basic shapes and forms) from the Soviet Union were banned because believed to contain Cuban nickel. |

## CHRONOLOGY OF U.S.-U.S.S.R. TRADE DURING THE DECADE PRECEDING PERESTROIKA: 1974-1984 (continued)

**1984**

| | |
|---|---|
| **FEB 2** | The U.S. International Trade Commission, in an investigation under sec. 406 of the Trade Act of 1974 of possible market disruption by imports of ferrosilicon from the Soviet Union, determined that market disruption did not exist. |
| **JUN 27** | Long-Term Agreement to Facilitate Economic, Industrial, and Technical Cooperation was extended for 10 years. |
| **JULY** | The United States lifted the ban on Soviet fishing within the 200-mile zone, one of the sanctions imposed in January 1980 in response to the Soviet invasion of Afghanistan. The Administration announced the U.S.S.R. would be allocated 50,000 metric tons of bottom fish. |

*Sources:*

*Vladimir N. Pregelj, "U.S. Trade Relations with the Soviet Union since World War II: A Chronology," Congressional Research Service (CRS) Report for Congress, April 15, 1989.*

*Bruce Parrott, Ed., Trade, Technology, and Soviet-American Relations (Bloomington: Indiana University Press, 1985), pp. 363-371.*

# Appendix E

## *Gorbachev's Reform Initiatives*

## The Gorbachev Program

Policies that Gorbachev has unveiled to date emphasize acceleration of economic growth through investment shifts, management and organizational reforms and programs to change the attitudes and work habits of the labor force.

### Restructure Investment

- o Increase expenditures on renovation of existing industrial plants from 1/3 to 1/2 of State productive investment during 1986-90.
- o Increase investment in civilian machine building and energy by 80% and 35% respectively during 1986-90 over 1981-85 levels. Within machine building give special attention to high technology industries such as micro-electronics, computers and instrument making.
- o Double retirement rates for equipment in industry during 1986-90; quicken the pace of commissionings, in part by reducing average construction times for new plants from 8 years to 3 1/2 years.

### Increase Discipline

- o Re-emphasize anti-corruption campaign initiated by Andropov.
- o Institute anti-alcohol campaign to improve labor productivity and show resolve to squarely face difficult social problems.
- o Better implement policies to reduce labor turnover and to increase worker effort by reducing absenteeism.

### Change Personnel

- o Achieve a working majority in the Politburo, a rapid pace of cadre renewal and the placement of key allies in important positions throughout the economic bureaucracy.
- o Move some highly successful managers from the better performing defense industries into posts in the civilian economy critical to S&T performance.

### Re-Organize Management

- o Streamline management by forming coordinating bodies for groups of related industries, beginning with the agro-industrial, machine building, energy and construction sectors.
- o Strengthen central planning while giving end-user enterprises more operational autonomy.
- o Expand the industrial experiment that began in five industries in 1984 throughout industry in 1987. The experiment gives more autonomy to enterprises in day to day activities and marginally more control over investment decisions.
- o Move enterprises to a system of self-financing where they pay a percentage of their profits to the state and finance their operations out of the remainder.
- o Speed innovation by creating additional scientific-production associations (NPOs) that bring research, development and prototype production responsibilities together under one roof, and by forming inter-branch scientific-technical complexes (MNTKS) to coordinate research, development and production in technology fields that cut across ministry boundaries.
- o Increase the supply of consumer goods and services by allowing some expansion of legal private activity.
- o Ensure better product quality by placing state control officers empowered to reject inferior output in civilian industrial enterprises.
- o Reorganize foreign trade to give some industrial ministries and enterprises more authority to conduct their own trade activities, and to allow foreign investment in Soviet industry.

### Revamp Incentives

- o Increase salaries and bonuses for scientific workers and engineers to encourage creation and use of new technologies.
- o Differentiate wages to reward productive workers and penalize laggards.
- o Implement price increases for "high" quality products and cuts for "lower" quality products.

### Re-Educate The Public

- o Begin computer literacy classes that will ease the task of using advanced equipment and provide training in "disciplined thinking."
- o Set up regional technology centers, beginning with robotics.
- o Implement management training programs that stress problem solving, simulation and game theory techniques relevant to the efficient use of new technologies.
- o Change peoples expectations and attitudes by encouraging discussion of a wider range of economic and social issues.



Source: Congress, Joint Economic Committee, Gorbachev's Economic Plans, Vol. 1, Nov. 23, 1987, 100th Congress, 1st sess., p.64.

*Gorbachev's Reform Initiatives*

| Category | Objective | Limitations |
|---|---|---|
| Enterprise Economy | To allow enterprises to make more day-to-day decisions with less interference from the ministries | Enterprises still receive a fairly detailed set of production targets. Their decisionmaking is further "guided" by performance indicators, assigned supplies, controls on investment, wage norms, and administered prices |
| Wholesale Trade | To reduce central controls over the distribution of enterprise supplies and to expand use of contracts among enterprises | There is no specific timetable for shift to wholesale trade and no guarantee reforms will eventually allow enterprises to choose their suppliers freely. For the present, enterprises will only be able to influence marginally the quality of goods they receive |
| Self-Financing | To allow enterprises to keep a larger share of their profits, which can be used for operating expenses and investment | Enterprises will have difficulty obtaining investment supplies because of centralized supply system. Many firms do not earn enough profits to be self-supporting. There is no provision for redistribution of capital funds to more "efficient" enterprises |
| Bankruptcy | To allow liquidation of enterprises that operate at a loss | Current price system is designed to enable average enterprise to earn a profit. Given an administered price system and success indicators not necessarily reflecting efficiency, basis for making judgments about liquidation is uncertain |
| Wages | To create pay differentials and a closer relationship between workers' pay and amount and quality of work they produce | Pay increases will depend on enterprises' ability to finance them from funds related to productivity increases. Wage "normatives" will be set by superior organs |
| Agriculture | To increase self-financing, give farms greater control over disposal of their product, and encourage workers' interest in final harvest results | These goals continue to conflict with irrational price system for farm products and industrial outputs, high procurement targets, and centralized allocation of natural resources |
| Private Activity | To increase incentives for individual, family, and small business groups | These are cautious regulations--much more restrictive than those enacted in East Europe. Participation is limited, for example, to housewives, students, pensioners, and state employees working in their free time |
| Foreign Trade | To allow a limited number of enterprises to conduct trade directly with foreign partners and promote joint ventures with western firms | Central control remains tight over most foreign trade, and firms participating in joint ventures are insulated from rest of economy |



 Source: Ronald D. Liebowitz, Ed., Gorbachev's New Thinking: Prospects For Joint Ventures (Cambridge, MA: Ballinger Publishing Co., 1988), p. 35. Reprinted with permission.

## *Chronology of Events During Gorbachev's Rule*

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|---|---|
| CPSU Conference on Scientific and Technical Progress June 1985 | Defined a new investment policy<br>Modernization plans for machine-building branch of industry focusing on high-tech sectors presented<br>Developed plans for improving domestic R&D and integrating it more effectively at production level<br>Spelled out vague outline of economic reform: price reform, financial, autonomy, increased use of collectives |
| Plenum of Central Committee and Session of Supreme Soviet | Draft plan for 1986-1990 and guidelines to year 2000 announced<br>5 percent average annual growth rate during 1986-2000 called for: 3.5 percent annual rate of growth during second half of decade and rates in excess of 5 percent annually during 1990s |
| 27th Party Congress of CPSU Feb.-March 1986 | Draft guidelines for economic and social development of USSR for 1986-1990 and for period ending in 2000 published<br>Gorbachev criticized policies of Brezhnev regime and called for "honest and frank" assessment of recent policies, "radical economic reforms," more "flexible" prices, and greater decentralization |
| Plenary Session of CPSU and Meeting of Supreme Soviet June 1986 | Gorbachev criticized bureaucracy for moving too slowly in replenishing social and economic programs<br>Ryzhkov reviewed economic targets contained in guidelines, raising some, such as goal for capital investment, and specified high end of original ranges for others. Also called for 80 to 85 percent of machinery to be up to world standards by 1990 |
| Central Committee Conference August 1986 | Conference called to discuss technical standards, quality, and competitiveness of machinery and equipment produced in USSR. Singled out for criticism sectors not producing up to world standards, including pivotal machine tool and tool-building industries<br>Slow progress made in improving scientific technology base of new machinery products criticized<br>Goals set for producing only state-of-the-art equipment in 1991-1995; 80 to 85 percent of equipment is to be up to world standards by end of 12th FYP<br>Called for careful review and planning of production of new machinery and for formulation of indicator of technical standard of output produced |
| Plenum of Central Committee and Session of Supreme Soviet November 1986 | Plan and budget for 1987 approved. Although sparse in detail, plan indicated no let-up in Gorbachev's modernization drive |
| Central Committee Plenum January 1987 | Gorbachev called for multiple candidates and secret ballots in elections of Party officials at republic level and below<br>Party conference in 1988 to revise election procedures called for |
| Central Committee Plenum on Economic Reform June 1987 | Promoted three Party secretaries to full Politburo membership and passed resolution outlining procedure for electing delegates to upcoming Congress<br>Approved document called Basic Provisions for Fundamentally Reorganizing Economic Management, laying out official blueprint and time schedule for "new economic mechanism." (Eleven documents detailing changes in major areas of economy also approved but not published)<br>Adopted new Law on the State Enterprise designed to expand decisionmaking powers and force enterprises to be financially responsible for own activities |
| Publication of Decrees on Economic Reform August 1987 | Decrees approved at June 1987 Plenum published. Decrees deal with following subjects: planning, statistics, science and technology, supply, finance, banking and credit, reorganization of branch ministries and departments, republic ministries and departments, price formation, labor and social affairs, and Council of Ministries |



Source: Ronald D. Liebowitz, Ed., Gorbachev's New Thinking: Prospects for Joint Ventures (Cambridge, MA: Ballinger Publishing Co., 1988), p. 26.
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