
CHAPTER I

Summary: Issues and Options

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Summary: Issues and Options

INTRODUCTION

Trade and commerce between nations is a necessary, if not sufficient, requisite for achieving peaceful relationships. On the other hand, trade with a potential adversary will inevitably, to some extent, strengthen the economy and the military capability of the trading partner. It is in the context of this dilemma that present debates over the value and wisdom of selling U.S. goods and technology to the Communist world take place. This study has been undertaken at the request of the House Committee on Foreign Affairs and the Senate Committee on Commerce, Science, and Transportation to help provide Congress with the capability to address the complex issues raised by this trade, including the extent to which international trade in high technology endangers the national security of the United States. It addresses the controversies that surround the issue of East-West trade and technology transfer, i.e., the costs and benefits of the United States' selling technology to and expanding its commercial relations with the Soviet Union, Eastern Europe, and the People's Republic of China.

This subject is complicated by both conceptual problems and disagreements about the nature and future of U.S.-Soviet relations. The conceptual problems concern the difficult task of defining and measuring technology. These problems are dealt with in chapter V 1. The disagreements are manifested in the divisiveness and ambivalence which surround the question of the appropriate nature and extent of U.S. trade with the East. At the center of these disagreements seems to lie an even more fundamental difference of views about the basic strategies that the United States should employ in its dealings with the Communist world.

From one perspective, technology transfer is a necessary part of a policy of expanded contacts with the Communist world. Out of this policy of detente arises a series of international and interpersonal relationships which, over time, could contribute to a last-

ing structure of peace. Those that argue from this perspective assert that present policies that restrict U.S. exports are both politically and economically ill-advised. The risk of some erosion of U.S. technical leadtime incurred by trade in technology is justified by the economic benefits of trade. Moreover, strict export controls are unworkable given the availability of much comparable technology abroad and the inability of the United States to obtain adequate cooperation from its allies for a restrictive trade policy. From this perspective, the denial of all but a small and specialized category of military technology is practically impossible. The safest policy therefore becomes one of vigorous promotion of 1) all U.S. exports to reduce balance-of-trade deficits, and 2) U.S. research and development to maintain a technological lead over friends and adversaries alike, thus minimizing the national security risks entailed in technology transfer. Consistent

with this view is the argument that corporate interest should be more than adequate to protect the United States from suffering substantial economic losses through trade in technology; it is, after all, in the interest of every corporation to protect its position of technical leadership.

Others view the basic nature of East-West confrontation in more Manichean terms, arguing that the fundamentally adversary relationship between East and West is unlikely to be changed in the near future through any gradual relaxation of tension brought about by trade. Trade is not seen as an opportunity for strengthening peace; rather it is contended that the West is being slowly bled of its most important assets by nations it has every reason to distrust. From this perspective, present policy is not restrictive enough. The only safe course is to deny assistance to our adversaries wherever possible, using trade only as necessary to extract political concessions. The difficulty of obtaining cooperation from our allies is acknowledged but countered by the argument that opinion in Western Europe and Japan is not monolithic and present official sentiments are not fixed for all time. With sufficient determination, funds, and energy it could be possible both to strengthen Western military alliances and to convince our allies to restrict trade in a common front. From this perspective even relatively passive aspects of trade in technology assume a strategic significance; programs allowing a constant interchange between Eastern and Western technologies, for instance, can gradually deplete advantages in technology, management skills, and other areas in which the West now enjoys substantial superiority.

The middle ground is occupied by those who feel that no judgments need necessarily be made about the prospects for detente. They argue that while existing policies may require adjustments to increase the efficiency and reliability of their administration, no basic reformulation is required. From this point of view, the objective of the export administration system is to maintain the milit-

arily relevant technological leads that the West presently holds relative to the Communist world. The system, it is argued, is functioning properly so long as it delays the acquisition in the East of technologies that could close these gaps or ensures that their acquisition is relatively difficult and costly. Realistically, a Communist nation can ultimately acquire any item it prizes highly enough; either alternative suppliers will be found outside the United States, or it will be developed indigenously, at greater cost perhaps than if it were purchased from the West. It is acknowledged that the licensing system as it is presently administered may occasionally err either in subjecting harmless technologies to excessive and needless delay, or, less often, in allowing items of military significance to slip through the net. These defects can be remedied without altering the fundamental premises of the policy, however. Attempts to weight the policy on the side of economic advantage may have serious national security implications; efforts in the opposite direction must contend with economic and political realities. The United States is not the sole supplier of most of the technologies desired in the Communist world and U.S. allies in Western Europe and Japan are not likely to concur in more restrictive policies.

To discuss and evaluate these positions in a meaningful way requires the review of a host of complex economic, political, and military benefits and liabilities that may not be quantifiable, but which nevertheless must enter into any calculation of the risks inherent in all trading relationships with the Union of Soviet Socialist Republics (U.S.S.R.), People's Republic of China (PRC), and Eastern Europe. It is the goal of this assessment to present these and related points of view as clearly as possible, acknowledging the uncertainties which exist and which will continue to exist, but providing material that will allow a better analysis of the kinds of military, political, and economic costs and benefits that any program affecting East-West trade and technology transfer is likely to incur.

ISSUES AND FINDINGS

The following is a capsule summary of the major issues arising from U.S. trade—particularly in technology—with the Communist world. The discussion addresses the economic, military, and political concerns related to this trade and its role in relations between the United States and its major allies.

ECONOMIC

How Important Is Trade With the Communist World to the U.S. Balance of Trade?

East-West trade is a relatively small component of U.S. foreign trade, and a minor component of the overall American economy. Although trade with Communist States has grown rapidly since the beginnings of detente, and although trade with the People's Republic of China increased dramatically during 1979, trade with Communist nations is not expected to become a critical factor in the U.S. balance of trade in the foreseeable future.

Total turnover of U.S. trade with the East in 1978 was \$6.3 billion—4.1 percent of U.S. world trade. The United States had a balance of trade surplus with the Communist world of \$2.6 billion in 1978, as compared to a U.S. worldwide trade deficit of approximately \$28.4 billion. Moreover, East-West trade remains a relatively small part of the Organization for Economic Cooperation and Development (OECD) trade as a whole, and the United States has captured only a minor share of this limited market. In no instance is the United States the major Western trading partner of a nonmarket economy.

What Are the Major Barriers to Continued Growth in U.S. Trade With the East?

Three factors are commonly cited as inhibiting the expansion of American trade with the Communist world: 1) the lack of official credits and guarantees to finance U.S. ex-



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Coca Cola is now available in the PRC

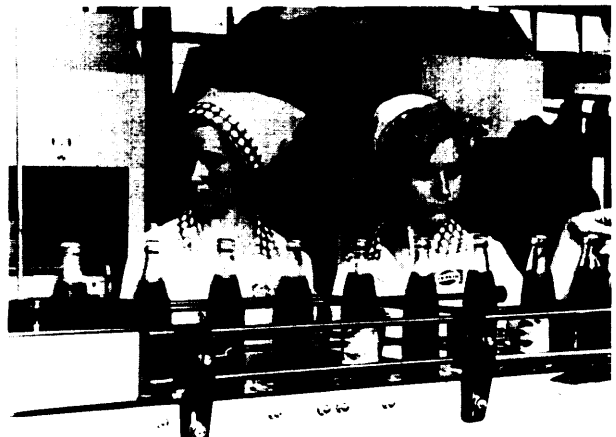


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Pepsi Cola production line at Novorossiisk, U.S.S.R.

ports; 2) the lack of normal trading relations, including extension of most-favored-nation (MFN) status to Communist countries, notably the U.S.S.R. and PRC; and 3) U.S. export controls.

In fact, the primary obstacle to rapid growth of trade with the Communist world is the Communists' inability and/or unwillingness to export on a competitive basis to Western markets. Consequently, a shortage of hard currency inhibits Communist imports from the West. Credits that supply

hard currency would attack this shortage directly; extension of MFN would facilitate some Communist exports; direct export controls are significant only in certain industries to which Communist nations accord priority in their allocation of hard currency (e.g., computers or oil extraction technology in the case of the U.S.S.R.).

Therefore, credit is and will continue to be a major factor influencing the growth of East-West trade. Subsidized credits and/or loan guarantees, especially for the U. S. S. R., are far more readily available from America's Western allies—West Germany, France, Great Britain, and Japan—than from the United States. In 1977, for instance, West Germany and France supplied on the order of \$7 billion in official export credits to the U.S.S.R. and Eastern Europe; Japan provided nearly \$5 billion; and the United States \$945 million. There are strong indications that the availability of official credits substantially affects the choice of Western suppliers. For instance, all Soviet orders for American turnkey plants came during the brief period in which the U.S.S.R. was eligible for U.S. Export-Import Bank (Eximbank) credits. Contracts are now often concluded by American multinational firms with subsidiaries in countries that provide the U.S.S.R. with more competitive financing. This means that although American firms supply the technology, the United States does not receive the economic benefits of major equipment orders. It is unlikely to do so until Eximbank financing is once again available to the U.S.S.R.

Lack of MFN status appears hitherto to have had greater symbolic than practical impact on the volume of U.S. imports from the East.

Owing to the commodity composition of trade and the demand elasticity characteristics of Eastern products, absence of MFN status has had a relatively minor effect on the largest nonmarket exporters (U.S.S.R. and PRC, although the situation with respect to the latter may now be changing).

The existing tariff schedule has, however, probably had a relatively greater effect on the volume of U.S. imports from—and ability to export to—East Germany and Czechoslovakia.

Many U.S. firms contend that U.S. export controls are a serious barrier to expansion of trade with the East. Careful analysis does not support this proposition. While export controls may affect the U.S. market share of present trade, significant growth is retarded more by chronic hard-currency shortages and deliberate policy decisions in the Communist world. Even if U.S. trade with the PRC continued to grow at its present rate, for instance, changes in the Communist world's share of U.S. foreign trade would be incremental. Major increases in the volume of East-West trade can only occur if the Communist world alters certain of its fundamental policies regarding the degree of worldwide economic interdependence acceptable to it and establishes alternative ways of handling its current hard-currency problems. It is highly unlikely that any such decisions will dramatically affect trade volumes over the next few years.

How Much Technology Does the Communist World Buy From the West, and How Important Is That Technology to the Economies of the Importing Countries?

Communist imports of technology, including technology-intensive products, constitute in value terms a minor share of total purchases from the West, but the value to the East of the technological component of Western trade is high relative to other imports. Some contend that this is due to Western underpricing on technology sales to the East. Be that as it may, it is certainly true that Eastern purchasers carefully choose only those processes and products with the highest possibility of productivity gains. Estimates of the macroeconomic impact of Western technology imports on the Soviet economy vary, but it is clear that impacts in

discrete areas of the economy have been significant. Thus, while aggregate Western resource inflows into the U.S.S.R. have relatively little impact on overall growth, there is no doubt that imports of certain commodities—capital equipment and associated technology in particular—have played a large role in the expansion of key sectors, and have thus made a significant contribution to total economic growth. This is particularly manifest in the chemical and motor vehicle industries.

The U.S.S.R.'s most productive domestic use of imported technological developments has come in industries that were based on well-established technologies. But in most industries in which significant technology transfer from the West has occurred, the technology gap between the U.S.S.R. and the West has not diminished substantially over the past 15 years. This may be due to the fact that imported technology substitutes for the development of domestic capabilities and therefore actually impedes the ongoing domestic innovation necessary to close technological gaps. In these sectors, Western technology has been extremely important, but it has never acted as a panacea for Soviet economic difficulties.

The Soviets will experience a sharp decline in the growth of the labor force in the near future. Technological improvement, aided by imports from the West, is to be the basis of planned increases in Soviet labor productivity. However, the rigidities of central planning inhibit the diffusion of imported technology in Communist nations. This is particularly true in the U. S. S. R., where lack of communication between producer and user, and lack of effective cost criteria hamper the Soviet ability to effectively assimilate and diffuse imported Western technology throughout the economy.

What Are the Prospects for Future Eastern Purchases of Western Technology?

In the U. S. S. R., the allocation of convertible currency is the most important single ele-

ment in import planning. Decisions to allocate currency among purchase options in the West are made either within the framework of regular 1- and 5-year plans governing the entire economy or through irregular (*ad hoc*) decrees that concern single branches of industry or individual enterprises.

The Soviets are careful customers. Each ministry, nearly all R&D organizations, and many large enterprises systematically collect and process available Western scientific and technical data. The Ministry of Foreign Trade collects technological and marketing data abroad. Nevertheless, import priorities change over time and the U.S.S.R. has developed no consistent and universally applicable criteria for selecting Western imports. The decisionmaking process is time-consuming, complex, and often inconsistent.

The hard-currency debt of the East, although small from the standpoint of worldwide borrowing, has risen dramatically in the last 8 years. In spite of debt increases the credit ratings of nonmarket economies in the West are good, and their debt in the United States is relatively small. But because the short-term prospects of greatly increasing exports to the West are dim, the cost of hard-currency capital may be expected to rise. As the accumulation of hard-currency debt in the East increases, further borrowing will become more expensive. Should this occur, there are three alternatives open to Communist nations. They can allow more direct Western involvement in their enterprises in the form of joint ownership; they can resort to internal financing; or they can expand and diversify their hard-currency earnings from exports. On examination, only the latter option seems viable in the long term. It will require the import of Western manufacturing and marketing technology.

In the short and medium term, credit will constrain further technology purchases only insofar as it becomes difficult to obtain financing for large and costly projects (as in the U.S.S.R.). As the cost of capital increases, nonmarket economies may begin to

place a higher priority on purchasing technology and technology-intensive commodities since these products promise the highest returns. The purchases of Western commodities as short-term means of achieving 5-year-plan targets will probably diminish as planned technology purchases increase in relative importance.

The situation of the PRC is quite different from that of the U.S.S.R. Imports of Western products and technology have traditionally been regarded by the Chinese leadership with ambivalence. The history of Chinese technological interaction with the West is punctuated with attempts to ignore or suppress the cultural consequences engendered by the transplant of Western productive techniques. But while Chinese imports of industrial plant and technology have (until recently) been relatively small, their importance in providing a cumulative qualitative improvement in key industries has been substantial.

Foreign technology provides the cutting edge of the general program of economic modernization announced by Premier Hua Guofeng in February 1978. The current leadership has manifestly committed itself to generating policies that will control Western cultural influence during the process of technological development, but it will nevertheless aggressively push for technological modernization. While the overly optimistic plans announced at that time have since been scaled down, major purchases of Western plant and technology will still occur, financed in part through increased levels of borrowing in the West.

The Chinese will experience no difficulty in obtaining credits. Their borrowing in the West, until now, has been extremely modest and their credit rating is high. They also would appear to have significant potential for hard-currency earning exports such as oil and labor-intensive handicrafts and consumer products.

The PRC has shown increasing sophistication in the search for and acquisition of for-

eign technology. There has been a coordinated national effort to accumulate as much published technical and scientific data as possible from Western sources. The last 2 years have seen an enormous growth in Chinese technical delegations traveling abroad to Western Europe, Japan, and the United States. The Chinese also seek to extract the maximum amount of information from technology negotiations as well as to utilize contractual arrangements that will yield as much experience to China as possible. Productivity gains resulting from Western capital and technology inflows will be most marked in centrally controlled urban industries, which stand to benefit greatly from the import of modern process equipment and complete plants.

Chinese import selection and hard-currency allocation procedures are relatively decentralized in comparison with the Soviet Union. Accordingly, it is possible that recent orders of foreign plant and equipment were permitted to outstrip China's ability to generate the hard currency needed to pay for them. Even though the decentralization of decisions regarding allocation of currency for foreign trade may be expected to continue, decisions regarding the purchase of whole plant and high-technology items are likely to remain centralized and the central government will exert closer control over foreign exchange.

Could the Sale of American Technology to the Communist World Produce Effects Detrimental to Sectors of the U.S. Economy?

Some sectors of the U.S. economy are more vulnerable to the repercussions of technology transfer than others. Perhaps the most important of these is the chemical industry, where American plants have been sold to the U.S.S.R. and are to be paid for by products produced in them. As a result of this "buy-back" transaction, U.S. firms producing anhydrous ammonia have experienced domestic plant closures and significant declines in prices over the last 2 years.

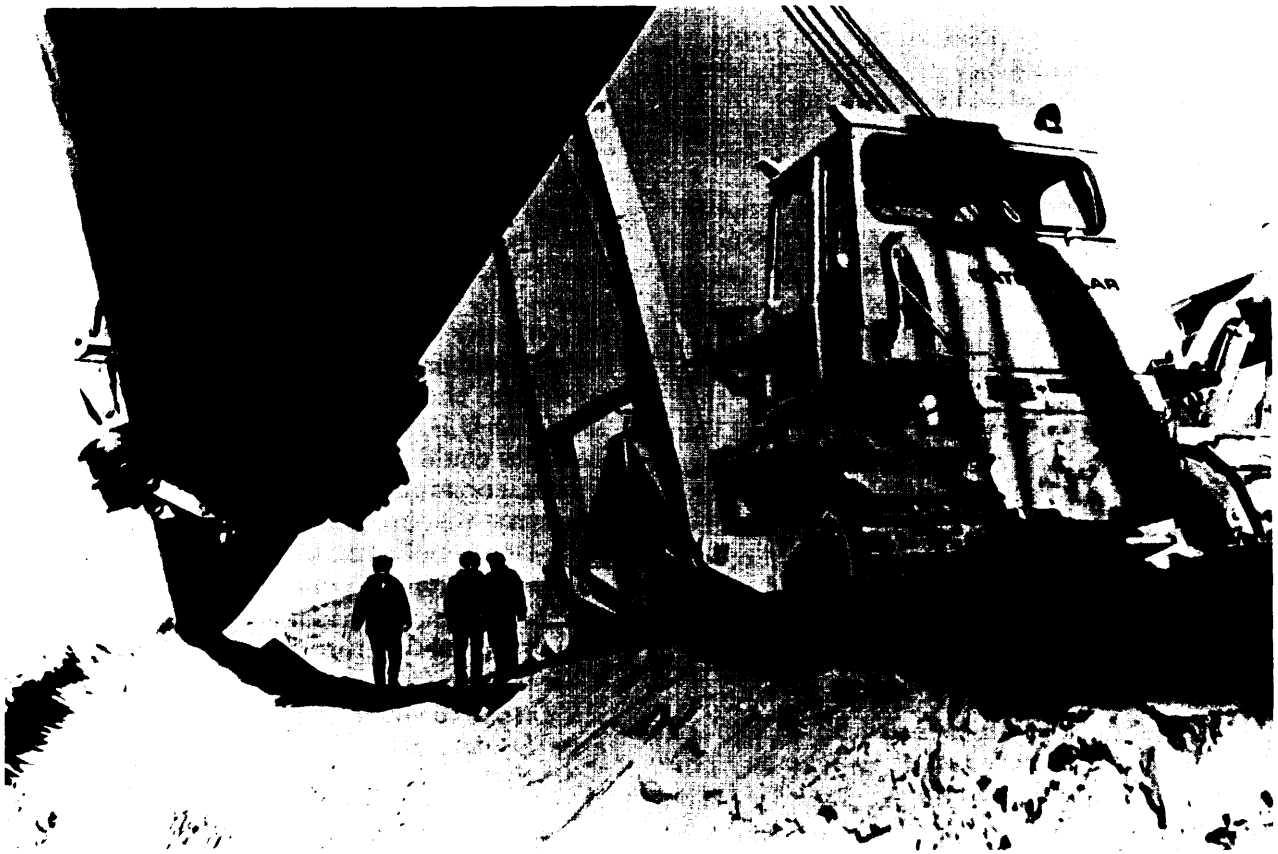


Photo credit: TASS from SOVFOTO

American equipment at the construction of the second Shatyk—Khiva pipeline, U.S.S.R.

The U.S.-U.S.S.R. contract has a life of 20 years and it will probably result in serious market disruption for domestic producers of ammonia. Other problems in the same industry have arisen in Western Europe where product buy-back provisions in contracts for turnkey plants have required the import of large quantities of chemicals, to the detriment of domestic producers.

Despite this growing threat to the West European chemical industry, existing legal mechanisms have proven ineffective in dealing with the glut. "Dumping," i.e., selling goods cheaply in overseas markets at below domestic production costs, is also a problem. Chemical firms have found it difficult to demonstrate dumping because the required evidence includes the exporters' prices in the home market or actual costs (prices in Com-

munist nations are administered and are therefore unusable for comparisons). Although rulings in the United States have found dumping of some Eastern goods, often it takes Western firms at least a year to assemble a case based on the exporter's internal costs. By this time the damage has already been done.

It is highly unlikely in the near or medium term that any Eastern economy could offer serious competition to the United States in a product area involving advanced design and manufacturing technology. But Eastern nations are anxious to increase their export potential and any significant increase in East-West trade in the long term must include more Eastern exports.

In the long term, the proliferation of industrial technology in the East might weak-

en the competitive position of U.S. firms as suppliers of technology to newly industrializing nations. Nonmarket economies are increasingly attempting to break into this market.

On the other hand, there may be significant advantages to sectors of the U.S. economy actively engaged in East-West trade. Although the total volume of trade in technology between the United States and the Communist world has been relatively small in dollar terms, some firms contend that such technology sales play an important role in their corporate strategy and are linked both to potential sales of much greater size—in third markets as well as in the East—and to decisions regarding innovation and extension of product lifecycles. Should trade volumes increase, so too may these indirect effects.

Another potential benefit may lie in reverse technology transfer—from East to West—which is at present miniscule. The failure of Western firms to search for technology in the East and the inability of the centrally planned economies to market effectively in the West has resulted in significant opportunities for Western technology purchases being missed.

POLITICAL

What Basic Positions Have Been Taken Regarding the Use of Trade Leverage, i.e., Using Trade To Achieve Political Objectives of Foreign Policy?

The question of the political uses of trade has generated considerable controversy and at least three schools of thought. The first rests on a judgment that trade is not an effective instrument to achieve political objectives. This is the official view of the Soviet Union and is held by a number of OECD governments which contend that history has shown that efforts to obtain political concessions from the nonmarket economies through policies of economic pressure or in-

ducement have been unsuccessful. Consequently, each trade and credit transaction should be judged on its economic merits alone.

The second perspective is associated with detente. It rests on the proposition that trade can have a moderating effect on international politics by enmeshing national economies in a web of interdependence. The Soviet economy's acute need for imports of technology and capital equipment from the West provides the opportunity to deliberately bind the U.S.S.R. in such a web. Additional benefits could include a strengthening of the Soviet consumer economy as a claimant on domestic resources and a moderating factor in national policymaking; and increased opportunities for the penetration of Soviet society with Western products, culture, and values. This perspective adopts a limitationist view of American power and is skeptical of the extent to which the United States can coerce Soviet policy. Washington is seen to have little real choice but seek a stable cooperative relationship with Moscow. Through a combination of economic inducement and benign political subversion, trade offers one means of drawing the Soviet Union into such a relationship.

The third perspective accepts the proposition that technology transfers can be harnessed to political purposes, but is profoundly skeptical of the hypothesized connection between such trade and political moderation. Proponents of this view contend that the basic relationship between the Soviet Union and the West is, and will remain, one of conflict due to deep-seated differences in ideology, social and political systems, and foreign policy objectives and interests. Consequently, Western transfers of technology may have the net effect of strengthening an adversary—particularly if they are financed by credits at low rates. Such transactions can only be justified if the West obtains concessions in Soviet domestic or foreign policy in return. Thus the need for Western technology can and should be exploited as a source of leverage on Soviet policy.

Is There Evidence to Either Confirm or Deny the Utility of Trade Leverage in East-West Relations?

To date the effort to use trade for political leverage has focused on establishing the freedom of Soviet Jews to emigrate. An analysis of Jewish emigration in the context of the Jackson-Vanik amendment, which links U.S. trade concessions to such emigration, provides no conclusive evidence that the amendment either has or has not had a significant impact on Soviet emigration policy.

Much disagreement surrounds the question of whether there exist technologies critical to the U.S.S.R. in which the United States has a clear worldwide monopoly. To be effective for this purpose a technology must be highly valued by the Communist countries and must be unavailable from alternative sources. Few technologies meet these tests. Attempts to identify technologies with the greatest promise as instruments of U.S. leverage have focused on advanced oil and gas exploration and extraction equipment and on certain types of computers. Even in these cases, careful analysis suggests that while some leverage may indeed be possible, it will be of limited potency and duration as supplies from alternative foreign sources and domestic production become available. Leverage in other technologies would depend on cooperative efforts in the Western alliance.

Efforts to use trade to moderate Soviet policy as part of a broader detente policy have led to inconclusive results. During recent years there has, in fact, been a substantial growth in Soviet trade with the United States but there is little evidence that such trade has so far had the desired effect on Soviet foreign policy or domestic politics. Whether it will do so in the future is open to debate.

MILITARY AND STRATEGIC

Can the Military Risk Entailed in the Proposed Sale of a Dual-Use Technology Be Determined?

A conclusive determination is probably impossible. Assessment of the military contribution of a product or process entails consideration of the following: the capabilities of the technology itself; the nature of the transfer mechanism; the character of the recipient environment, including infrastructure capabilities; the relative technological capabilities of the seller and the recipient; the available deterrents to diversion of end use; the priorities and intentions of the recipient; and the character and volume of related purchases in the past. Much of this information is necessarily based on informed speculation. Determinations of the motives and probable behavior of potential adversaries, for instance, are judgmental and can never wholly account for the impact of unforeseen events on priorities and decisions. The sale of any dual-use technology—and this means virtually all high technology—therefore necessarily entails some degree of security risk, which end-use guarantees or monitoring arrangements cannot eliminate.

Will the Compilation of a List of Militarily Critical Technologies, Embargoed to the Communist World, Substantially Reduce This Risk?

The critical technology approach currently under examination in the Department of Defense (DOD) is far from implementation. One present difficulty is the degree of confusion in Government and business community alike over its intention and probable consequences. For instance, it is hailed both by those who believe it may reduce the number of items currently controlled and by those who feel that it will make export controls more extensive. The recent DOD reorganization may well add momentum and a renewed sense of purpose to the critical technology

exercise, but it is unwise to regard it as a panacea to the difficult problems inherent in administering export controls. A list of embargoed technologies cannot simply replace the existing licensing system. No export control system can be effective unless it makes provision for case-by-case reviews of export applications. This case method approach may be combined with procedures such as the critical technologies list, designed to screen the number of applications subjected to detailed analysis, but it cannot be wholly eliminated.

Have American Technology Exports Contributed Significantly to the Military Capabilities of the Soviet Union?

Most observers of the export-licensing process would agree that U.S. and other Western technology has contributed to Soviet military capabilities. There is no agreement, however, on the degree or significance of any such contributions. This is partly due to lack of explicit policy guidance in the present export administration system on the specific military objectives and desired relative force capabilities of the United States; but disagreements also stem from divergent perception of Soviet capabilities and basic intentions, and even from different assessments of the technological capabilities of exported items. In this connection, it is relevant to note that no export license has ever been granted over the objection of the Secretary of Defense.

It is unlikely that these contributions could have been totally avoided without a complete economic embargo of the Communist world by the entire West.

AMERICA'S ALLIES

How Effective Is CoCom?

CoCom (Coordinating Committee for Multilateral Export Controls), the multinational organization that attempts to implement a uniform export control system throughout

the Western bloc, remains a viable, albeit imperfect, organization despite its informal nature, the lack of sanctions or adequate policing mechanisms, and the equivocal attitude of several of its members towards the continuation of present levels of export control. There are frequent charges, both in the business community and Government circles, that firms in other CoCom nations have evaded or ignored CoCom restrictions. There is at least convincing anecdotal evidence to support such charges, but the extent of foreign government connivance at such practices is open to question.

How Do Other Members of the Western Alliance View the Problems Raised by East-West Trade and Technology Transfer?

East-West trade has always been economically more important for Western Europe and Japan than for the United States. Germany and Japan lead the United States in exports of "high technology" products to the East and consider such sales desirable elements of their normal foreign trade. West Germany, for instance, is the leading Western overall supplier of machinery and equipment to the U. S. S. R., providing nearly one-third of such Soviet imports. Japan supplies approximately 20 percent and the United States less than 10 percent. Japan is the U.S.S.R.'s leading Western supplier of oil-refining equipment.

America's allies do not deny the basic necessity of withholding items of direct military relevance from the Communist world. But although there does not appear to be much enthusiasm for disbanding CoCom, its European and Japanese members would grant it a narrower role in export control than would the United States.

There is little, if any, debate similar to that in the United States over the political, military, and strategic implications of transferring technology to the East in Western Europe and Japan. It appears that Japan, West Germany, France, and Great Britain

all consider the sale of technology a primarily economic issue and are content to rely on the self-interest of the companies affected to protect domestic industry. Any use of export controls for political purposes is largely eschewed. West Germany, in fact, considers trade with East Germany a part of its domestic commerce and not "foreign trade," although it does observe CoCom restrictions in its sales of dual-use and military items to East Berlin.

With the exception of the small number of cases subject to delays in CoCom, or held up in the U.S. reexport licensing system, Japanese and West German export controls work quickly and efficiently and appear satisfactory to their business communities. Unlike U.S. firms, companies in these countries usually know how their cases will be resolved before a license application is submitted.

What Is the Likely Future of CoCom and How Much Influence Can the United States Expect to Exercise Over Its Policies?

Because of its position of leadership in a number of technologies of critical military

significance, the United States feels it has a special responsibility to ensure their safe-keeping. If it can play this role with intelligence and integrity, the United States may be able to initiate and maintain a strong and unified Western bloc position on the transfer of technology. Policymakers, however, must be cognizant of the fact that the attitudes and behavior on the issue of technology transfers to the East of at least four major CoCom partners (West Germany, France, Britain, and Japan) differ from those of the United States. Without major changes in the international climate and U.S. policy and behavior, attempts to strengthen the organization or impose formal sanctions on its members are likely to be resisted. Meanwhile, there is no immediate reason to expect any fundamental changes in the operation of the organization or the behavior of its members.

POLICY OPTIONS

There are three basic sets of options for future East-West trade and technology transfer policy. Each rests on a basic orientation toward the Communist world and set of beliefs and expectations regarding America's future relations with it. These orientations were discussed in the introduction to this chapter.

Present U.S. export control policy is the result of a decision to forego attempts at economic warfare against the Communist world and to further the dual aims of encouraging trade with the Eastern bloc and protecting U.S. national security. Legislation has attempted both to eliminate procedural barriers to trade and to strengthen national security safeguards. At times provisions of

the law have pulled in opposite directions, but the trend over the past 10 years has been toward liberalization of export controls.

There are three broad categories of policy which can impact on East-West trade and technology transfer. Suggestions in each category are listed here and discussed at length in the body of the report.

1. Actions in Keeping With the Existing Policy But Designed to Make Current Procedures More Efficient.

The vast majority (90 to 95 percent) of U.S. exports are shipped under a general

license that requires no formal application procedure. Similarly, only a minority of exports to Communist destinations require validated licenses. However, these must enter an export-licensing system which is complex and which has come under severe criticism for the delays it occasions. In fact, given the volume of applications handled by the system, it works reasonably efficiently and only a small number of cases are actually subject to excessive delays. Delayed cases assume a disproportionate importance, however, because they are often large and highly visible and concern areas of high trade-growth potential.

Suggestions for increasing the efficiency and reducing delays in the licensing process include the following: increasing appropriations for export-licensing administration; establishing a new form of export license; instituting timetables to curtail excessive delays; ensuring that application rejections are undertaken at the recommendation of all agencies in the review system; improving the data base for East-West trade; and enhancing the foreign availability assessment capabilities of the Office of Export Administration.

Procedures can and should be instituted to streamline the system without tampering with its basic structures or effectiveness, thus eliminating unwarranted, costly delays. Most promising among this family of suggestions is finding a means of systematically monitoring the availability of technologies desired by the Communist world from sources outside the United States. This is a crucial task of the export administration system. The establishment of a continuing capacity for undertaking such "foreign availability assessments" would be an important resource for administrators and policy-makers alike.

2. Actions That Could Increase Restrictions on East-West Trade or Strengthen the Use of Trade as a Foreign Policy Lever.

Suggestions that aim at shifting the balance of U.S. policy in the direction of restricting increases in trade with the East include the following: enhancing the role of the Secretary of Defense in the licensing process; compiling a list of embargoed critical technologies; exercising trade leverage through foreign policy controls, MFN, and official credit restrictions; strengthening CoCom; and curtailing academic and scientific exchange programs.

The effectiveness of several of these suggestions is problematic. First, the critical technology exercise currently underway in DOD has made slow progress in the past 3 years and is the subject of widespread misconceptions. Even the compilation of a critical technologies list will not allow easy or comprehensive solutions to the problems posed by East-West technology transfer. Second, the United States is restricted in the degree of potential trade leverage it can exercise. As discussed above, evidence of the past effectiveness of such leverage has been ambiguous. Finally, the United States at present has a limited ability to persuade its allies to strengthen CoCom. Such changes might be possible only if the United States itself embarked on a new and clearly confrontational policy vis-a-vis the Communist world.

3. Actions Designed to Expand East-West Trade.

The third group of suggestions for shifting the balance of U.S. policy in the direction of increasing trade with the East includes

the following: expansion of official export financing; granting MFN to Communist nations not presently enjoying it; limiting Presidential discretion in imposing export controls; reducing and/or indexing the Commodity Control List; bringing U.S. export control procedures into closer conformity with those of other CoCom nations; and a family of measures designed at export promotion in general.

Here, providing access to official export financing is probably the Government policy

with the highest potential for increasing the volume of U.S. trade with the East. The impact of granting MFN varies greatly among individual recipients. From a purely economic perspective, MFN to selected Eastern European nations might have greater impact than granting it to the U.S.S.R. and PRC. And while the removal of items from the Commodity Control List might affect U.S. market shares in certain industrial sectors, this would have less overall impact on U.S. trade with the East than would changes in credit and tariff policies.