CHAPTER IV

The Impact of Export Administration Policy on the U.S. Economy

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The volume of U.S. trade with the Soviet Union is small, Its role in the U.S. economy is not well understood, and assessments of its impact and importance have been controversial. This impact cannot be measured solely through balance-of-trade statistics. Important components of the foreign trade balance sheet are indirect and unquantifiable, and weighing their importance relative to the political and national security consequences of trade is a highly subjective matter. This chapter attempts no such cost/benefit analyses. Rather, it identifies the direct and indirect effects on the U.S. economy of trade with the U.S.S.R. and discusses the economic consequences of the implementation of U.S. export control policies under the 1979 Export Administration Act.

U.S.-SOVIET TRADE, 1979-82

Trade with the Soviet Union has never constituted a major share of U.S. foreign trade. As table 5 indicates, the absolute level of this trade and its percentage of total U.S. trade are both small. Even including all of Eastern Europe, since 1978 the Soviet bloc has never accounted for more than $5.7 billion or 3.2 percent of U.S. exports and $1.9 billion or 0.9 percent of U.S. imports. Most of this trade has been conducted with the U. S. S. R., and the vast majority of U.S. exports here have consisted of agricultural commodities. This is illustrated in table 6.

These trade levels are the result of both U.S. and Soviet policies. As *Technology and East-West Trade* discusses in detail, trade with the industrialized West has always played a rela-

Table 5.—U.S. Trade With the U.S.S.R. and Eastern Europe, 1978-82 (millions of U.S. dollars)

	1978		1979		1980		1981		1982	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
U.S.S.R	2,249	540	3,604	873	1,510	453	2,339	347	2,589	228
Bulgaria	48	19	56	35	161	25	258	34	106	28
Czechoslovakia	105	58	281	51	185	66	82	67	84	62
East Germany	170	35	346	36	477	44	296	48	223	54
Hungary	98	68	78	112	79	107	77	129	68	133
Poland	677	439	786	426	710	417	681	365	293	212
Romania	317	347	500	329	720	312	504	560	223	348
Total	3,665	1,507	5,651	1,863	3,843	1,424	4,237	1,550	3,585	1065
U.S. World Trade	141,228	176,052	178,798	210,286	216,762	245,262	228,961	260,982	207,158	243,952
Trade with Soviet bloc as percent of total trade										
Exports (%)	2,6		3.2		1.8		1.9		1.7	
Imports (%)	0.9		0.9		0.6		0.6		0.4	

NOTE Columns may not add to totals due to rounding Domestic exports on an f a s basis and general imports on a customs value basis

SOURCE U S Department of Commerce International Trade Administration and Bureau of the Census

Table 6.– U.S. Exports to the U. S. S. R., 1978.82 (millions of U.S. dollars)

Year	Total	Agricultural	Percent agricultural
1978	2,249.0	1,686.6	75
1979	3,603.6	21854.9	79
1980	1,509.7	1,047.1	69
1981	2,338.6	1,665.0	71
1982	2,589.1	1,855.0	72

SOURCE U.S. International Trade Commission and Department of Agriculture.

tively minor role in the Soviet bloc, where overall levels of East-West trade have been kept artificially low as a matter of policy. On the other side, the United States has captured only a small share of this already limited market.

Thus, as figure 1 demonstrates, although the U.S. share in trade with the Soviet bloc has grown about twelvefold since 1969, it has never amounted to more than 15 percent of the Organization of Economic Cooperation and Development (OECD) exports to or imports from this region. This is partly because Japan and the countries of Western Europe have traditionally been active trading nations (the United States has not) with historical trading ties to Eastern Europe and Russia. Equally, if not more, important is the fact that for both political and economic reasons Japanese and West European governments have pursued policies designed more to encourage than to inhibit trade with the Soviet bloc. The same cannot be said of the United States.

Technology and East- West Trade identified three factors which have constricted U.S. trade with the Soviet Union:

- lack of official credits and guarantees to finance U.S. exports,
- lack of normal trading relations such as extension of most-favored-nation status (MFN), and
- U.S. export controls.

In OTA's judgment, the first of these was the most important:

> [T]he 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.)[1]

While this observation still holds true, the events of the past few years have shown that use of export controls can make significant inroads into even the existing low levels of U. S.-Soviet trade. This fact is dramatically illustrated in tables 5 and 6. The decline of U. S.-Soviet trade and U.S. market shares in 1980 was the direct result of the grain and technology embargoes imposed after the invasion of Afghanistan. Interestingly, the lifting of most of these sanctions has not resulted in recovery above 1979 levels. This reflects worldwide recession and the persistence of some U.S. trade controls, but it also may be at least partly due to the U.S.S.R. finding temporary or permanent alternative suppliers for the grain and equipment it had purchased from the United States. In any case, the U.S. Department of Commerce (DOC) anticipates that U.S.-Soviet trade flows in 1983 will not increase over 1982 levels. DOC projects U.S. exports of some $2.8 billion, of which $1.9 billion will be agricultural goods.[2]

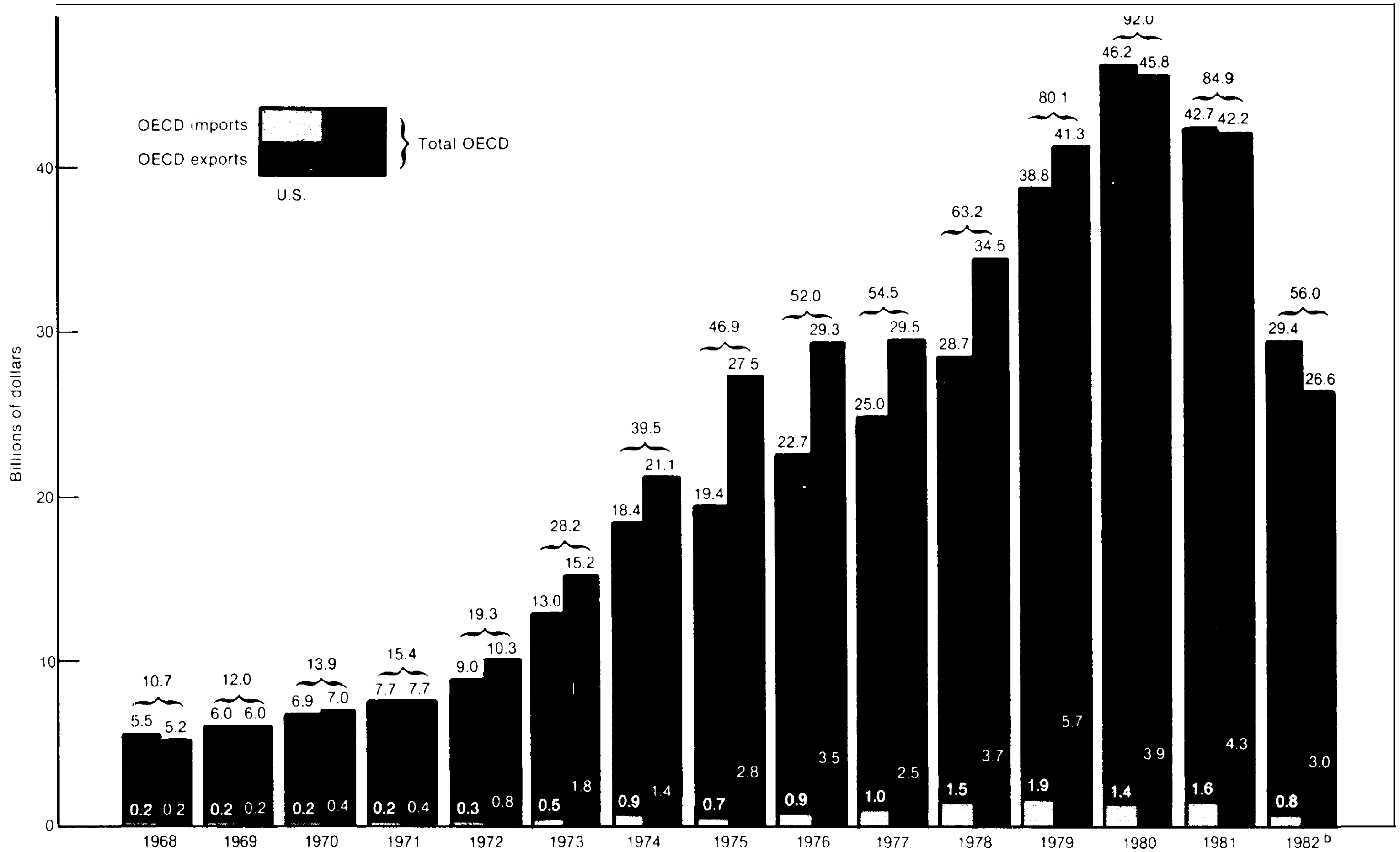
It is apparent that U.S. exports to the U.S.S.R. are far too small in the aggregate to have a significant direct impact on the American economy. One view of the policy consequences of this fact has been expressed by Herbert Stein of the American Enterprise Institute in Washington, D. C.:

> Everything that needs to be said on this subject [of U.S. trade with the Soviet bloc] can be said in a few words. U.S. trade with the

[1] *Technology and East-West Trade* (Washington, D. C.: U.S. Congress, Office of Technology Assessment, OTA-ISC-101, November 1979), pp. 5-6.

[2] William Cooper, "Modest Trade Growth May Follow Lifting of Sanctions, " *Business America,* Feb. 21, 1983, p. 21.

Figure 1.—OECD Countries' Trade With Soviet Union and East European CMEA[a] and U.S. Share



NOTE: % U.S. imports/exports	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982[b]
	3.6/4.2	3.3/4.2	3.3/5.1	2.9/5.0	3.6/7.9	4.0/11.8	4.8/6.8	3.8/10.2	3.8/12.0	3.7/8.6	5.3/10.6	4.8/13.8	3.1/8.4	3.6/10.3	2.9/11.2

[a]Exports f.o.b. Imports c.i.f. except for U.S., Canadian, and Australian imports, which are f.o.b.
[b]*Jan.-Sept. only.* Calculated from monthly average data from OECD.

SOURCE: U.S. Department of State, Bureau of Intelligence and Research, *Trade Patterns of the West*, various issues and OECD, Monthly Statistics of Foreign Trade, Series A, January 1983.

Soviet bloc-whether we have it or do not have it, whether we interrupt it in whole or in part; or make it contingent on political events —is of trivial economic consequence to the United States. If there is anything we can do with this trade that is of even slight value to the U.S. security or U.S. foreign policy, we should not be deterred by fear that it will damage the U.S. economy significantly.[3]

[3]U.S. Congress, Senate Committee on Foreign Relations, Subcommittee on International Economic Policy, *Economic Relations with the Soviet Union*, hearings, 97th Cong., 2d sess., July 30, Aug. 12-13, 1982 (Washington, D. C.: U.S. Government Printing Office, 1982), p. 199.

This position gives secondary weight to two kinds of economic impacts. First, exports can be of small significance to the economy as a whole, but nevertheless highly important to specific sectors of that economy -i.e., the agricultural sector—or to particular industries, or firms within those industries. Second, there are subtle and less quantifiable indirect impacts of the expansion or contraction of U.S. trade with the U.S.S.R. that are felt on both the micro and macro levels. These, as well as the direct impacts, are discussed below in the context of identifying potential costs to the U.S. economy of the export control policy pursued by the present administration.

IMPACT OF FOREIGN POLICY CONTROLS ON THE U.S. ECONOMY

Chapter III has discussed some of the consequences for the U.S. economy of the various trade sanctions imposed on the U.S.S.R. under the Carter and Reagan administrations. With two exceptions, much of this information is sketchy and many of the individual impacts seem minimal. The exceptions are discussed in this section—the impact on the U.S. economy of the partial grain embargo of 1980 and of the 1982 foreign policy controls on oil and gas equipment and technology.

GRAIN

Estimates of the impact of the grain embargo vary widely. According to one view, the embargo caused “only rather modest damage to producers and exporters here in the United States. ”[4] This analysis does not challenge the fact that U.S. grain producers and exporters were hurt in 1980 and 1981, but argues that other factors, such as inflation, high fuel costs, sluggish demand, and high interest rates, were more important causes than the embargo. In this view, the embargo resulted in a rearrangement of trading patterns in grain, which “nullified” the embargo's impact on both the United States and the Soviet Union. While the U.S. share of the Soviet market declined, its share of the world market was actually 2 percentage points higher in the 1980-81 marketing year than in the year preceding the embargo. Quite a different picture of the embargo's impact emerges from other studies.[5] One estimates that direct costs and losses to the United States can be counted in billions of dollars and include lost output of goods and services, employment losses, and the cost to the Government of assuming contracts and acquiring and storing agricultural commodities.

Another way of assessing the economic costs of the grain embargo is through its relative impact on the United States and the U.S.S.R. Some argue that the embargo was a failure because it inflicted larger costs on the United States than on the Soviet Union. Still others believe that there was little impact on

[4]“Statement of Robert L. Paarlberg, Assistant Professor, Political Science, Wellesley College, ” in U.S. Congress, Senate Committee on Agriculture, Nutrition, and Forestry, Subcommittee on Foreign Agricultural Policy, *Economic Impact of Agricultural Embargoes*, hearings, 97th Cong., 2d sess., Feb. 3 and 5, 1982 (Washington, D. C.: U.S. Government Printing Office, 1982), pp. 23-24,

[5]“Effects of the 1980 and 1981 Limitations on Grain Exports to the U.S.S.R. on Business Activity, Jobs, Government Costs, and Farmers,“ in the above, prepared by Schnittker Associates, pp. 113-125.

either country. These analyses are complicated by the multiplicity of factors influencing Soviet meat production and U.S. farm income.

It is generally accepted that the impact of the embargo on the Soviet Union was not as great as the Carter administration predicted, but disagreement on the actual impact persists. The view prevalent in the Reagan administration and among agricultural specialists is that the Soviet Union was able to substantially offset the impact of the embargo by importing more grain from other sources, using substitutes for feed grain, drawing down grain reserves, and importing record quantities of meat. In contrast, the Carter administration, the State Department, and others, held that the embargo did impose significant costs on the Soviet Union. Since most protagonists rely heavily on the same U.S. Department of Agriculture (USDA) statistics, any assessment of this issue rests on the definition of "significant.

Before the embargo, USDA had estimated that the Soviet Union would respond to the poor 1979 harvest by importing 34 million metric tons (MMT) of grain (25 MMT from the United States and 9 MMT from other countries) during the 1979-80 marketing year and drawing 16 MMT of grain from its own grain stocks. In January 1980, USDA forecast that the embargo would deny the Soviet Union 11 MMT of U.S. grain, but that 2 MMT could be replaced from other sources. The resulting decline of 9 MMT in imports would lead to a decrease of about 6 MMT or 5 percent in Soviet feed grain usage and the drawing of an additional 3 MMT out of reserves.[6] Administration officials also foresaw distress slaughter of livestock, which would result in temporary increases in meat supplies, but would yield to significant declines in meat production and consumption.

This scenario proved incorrect. Soviet grain imports reached a record 31 MMT during the marketing year, leaving a gap of about 3 to 6 MMT, depending on how intended Soviet imports are estimated.[7] In sum, the Soviet Union replaced about half of the grain embargoed by the United States during the first half of 1980 and virtually all of the embargoed grain during the second half of the years The additional sales by other nations were considered 'in accordance with the countries' statements of cooperation.

The embargo did not result in distress slaughter. In fact, Soviet livestock inventories were higher on January 1, 1981, than the year before, although the rate of inventory growth was smaller. Meat production in 1980 was 15.1 MMT or 2.6 percent lower than in 1979. Some attribute the decline in whole or in part to the embargo. Others have concluded that the decline was "simply the continuation of a trend already in progress. "[10] In any case, the Soviets acted to offset the decline in production by importing a record 700,000 tons of meat in 1980," maintainingg but not increasing per capita consumption.

Supporters of the grain embargo have argued that the Soviet Union had to pay as much as a $1 billion premium for the grain it replaced. Others have noted that any premium prices were largely offset by lower prices paid for part of the grain imports. In addition, the U.S.S.R. incurred unquantifiable costs through inconvenience and disruption of shipping schedules. While conceding that the U.S.S.R.

[6]U.S. General Accounting Office, *Lessons To Be Learned From Offsetting the Impact of the Soviet Grain Sales Suspension,* July 27, 1981, pp. 46-47.

[7]The gap is 6 MMT if USDA's revised estimate that the Soviets intended to import 37.5 MMT is accepted. But many analysts view it as too high. Their estimates of the import gap range from 2.5 to 4 MMT. See, for example, U.S. Department of Agriculture, Economics and Statistics Service, *The U.S. Sales Suspension and Soviet Agriculture: An October Assessment,* Supplement 1 to WAS-23, prepared by Angel O. Byrne and Anton F. Malish, Washington, D. C., p. 12; and Robert L. Paarlberg, "Lessons of the Grain Embargo, " *Foreign Affairs,* vol.59, No. 1 (fall 1980), p. 155.

[8]"Statement of Hon. John R. Block, Secretary, U.S. Department of Agriculture," in *Economic Impact of Agricultural Embargoes,* op. cit., p. 67.

[9]Cited by GAO in *Lessons To Be Learned* op. cit., p. 49. USDA estimated that the participating countries (Argentina, Australia, Canada, and members of the European Economic Community) would have sold 9.5 MMT absent the embargo. But, actual sales were 13.4 MMT during the 1979-80 marketing year.

[10]"*Economic Impact of Agricultural Embargoes,* op. cit., p. 23.

[11]*Lessons To Be Learned,* Op. cit., p. 49.

did have to arrange for imports from a large number of suppliers, which disrupted shipping schedules and caused port congestion, and had to purchase nontraditional feeds, critics of the embargo do not consider the inconvenience a major cost to the Soviet Union.

Similarly divergent assessments exist of the embargo's impact on the United States. After the announcement of the embargo, prices for wheat, corn, and soybeans declined, recovering to preembargo levels only some 9 months later. Farm income also declined during 1980.[12] The main disagreement centers around the question of how much of these declines are attributable to the embargo, and how much to other factors such as high interest rates and increased costs of fertilizer and other inputs. The price support program and the drought during the summer of 1980 also put upward pressure on prices.

The General Accounting Office has concluded that the variety of variables precludes accurate measurement of the impact of the embargo or of the price support program on prices.[13] But farmers and farm organizations generally single it out as the major cause of declines. Secretary of Agriculture John R. Block described the impact of the embargo in similar terms:

> .0. the United States paid a heavy price. An immediate result of the embargo was a sharp decline in grain prices and U.S. farmers continue to suffer to a certain degree from these losses, and the market uncertainty that followed. This contributed to a decline in net income already underway largely because of inflation in producer costs and higher interest rates.[14]

Others downplay the embargo's effect. Former Secretary of Agriculture Robert Bergland has told Congress that the embargo had a "relatively small" impact on farm income compared with other factors influencing supply and demand. He estimated that due to the Government's price support program gross farm income declined by only 0.5 percent.[15]

The price support program added slightly more than $2 billion to the Federal budget. This is a readily identifiable cost to the United States, though it is not a final estimate since the Government still holds grain acquired through the price support program.[16] Another cost of the embargo is the decline in the U.S. share of the Soviet market (see table 7).

There is virtually no disagreement that where the United States was once the U.S.S.R.'s preferred supplier, it has now been relegated to a residual position. But while most observers consider U.S. losses a gain for other grain-exporting nations such as Argentina, Canada, Australia, and members of the European Economic Community, an alternative interpretation is that, since Soviet purchases are often unpredictable and sometimes market-disrupting, the lost share of the Soviet market could actually benefit the United States, as long as the United States retains its share of the world market.[17]

Most critics of the embargo view its consequences as potentially more serious in the long term than in the short term. They argue that

[12] *Assessment of Afghanistan Sanctions*, op. cit., pp. 45-46.
[13] *Lessons To Be Learned* op. cit., p. 8.
[14] *Economic Impact of Agricultural Embargoes*, op. cit., pp. 67-68.

[15] U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, *Suspension of United States Exports of High Technology and Grain to the Soviet Union*, hearings, 96th Cong., 2d sess., Aug. 19 and 20, 1980 (Washington, D. C.: U.S. Government Printing Office, 1980), p. 108.
[16] *Economic Impact of Agricultural Embargoes*, op. cit., p. 71. (Cost figure supplied by Secretary Block.)
[17] Ibid., pp. 24-25.

Table 7.—U.S. Share of Soviet Imports of Wheat and Coarse Grains

Year	United States (million metric tons)	Total (million metric tons)	U.S. share (percent)
1972-73[a]	13.7	22.5	60.9
1973-74	7.9	10.9	72.5
1974-75	2.3	5.2	44.2
1975-76	13.9	25.7	54.1
1976-77	7.4	10.3	71.8
1977-78	12.5	18.4	67.9
1978-79	11.2	15.1	74.2
1979-80	15.2	30.4	50.0
1980-81	8.0	34.0	23,5
1981-82	15.3	45.0	34.0

[a] July-June marketing year.

SOURCE Wharton Econometric Forecasting Associates, it has given the United States the reputation of being an unreliable supplier, and that other countries are now doubtful of the certainty of U.S. agricultural supplies. For instance, Mexico, which signed a grain supply agreement with the United States in 1980, is reportedly now considering signing long-term supply agreements with other countries.[18] In addition to seeking alternative sources of supplies, importing countries may also be encouraged to become more self-sufficient in grain or find substitutes.[19] Another potential longrun impact is increased production in other grain-exporting countries. U.S. competitors may have already increased plantings as a direct response to the embargo.[20]

OIL AND GAS EQUIPMENT AND TECHNOLOGY

Assessment of the cost to U.S. firms of this set of sanctions must take into account the fact that the controls were applied both retroactively and extraterritorially--i.e., they abrogated contracts which had been concluded and which were permitted under general or validated export licenses, and they applied to the exports of foreign subsidiaries and licensees of U.S. firms.

One way of measuring the direct cost of retroactive sanctions is to assess the value of canceled contracts in terms of both revenues and jobs. This kind of analysis was provided to the Subcommittee on International Economics of the Senate Committee on Foreign Relations, by the Caterpillar Tractor Co., which compiled lists of lost revenue, cancellation charges, and employee layoffs incurred by its subcontractors due to the Government sanctions imposed on technology and equipment exports to the U.S.S.R. in December 1982. Presumably data of this kind from a number of companies was compiled to reach the U.S. Government's official estimate that the controls on oil and gas equipment and technology sales to the U.S.S.R. would probably cost U.S. firms $300 million to $600 million in exports over 3 years .2' This amount may be insignificant spread over the economy as a whole; it is more significant when concentrated in a small number of firms in a few industries.

Retroactive sanctions impose at least two additional costs on the U.S. economy, made no less real by the fact that it is difficult or impossible to quantify them. First is the cost of foregone future transactions, one result of the reputation of unreliability, which can hardly fail to remain with exporters who may be ordered by their government at any time to

“”Statement of Dr. Michael L. Cook, Executive Director, Market Research and Development, FAR-MAR-CO, ” in *Economic Impact of Agricultural Embargoes,* pp. 11, 20.

[19] Ibid., pp. 12-13.

[20] See, for example, testimony by Cook and Block in ibid., pp. 12, 75-76.

[21] ”-pared Statement of Hon. Lionel H. Olmer, ” in *Economic Relations With the Soviet Union,* p. 11.

abrogate legal contracts. In the view of one lawyer studying this subject, the practice of interfering with exports can cause serious disruptions in the buyer-seller relationship:

> Since major export sales often lead to and grow out of long-term business relationships, the confidence of both buyer and seller is required. To the extent foreign purchasers believe that the United States has adopted a policy of prohibiting or restricting exports for political reasons, they may come to think of American firms as unreliable suppliers and may consequently consider third country or domestic suppliers more favorably. Even if alternative products are more expensive or of poorer quality, concern over American export policy can render them equivalent in the minds of buyers. Although the effect may be more pronounced in nations already subject to some controls and aware of the danger, it may be felt in any nation that fears becoming a target of future controls. Further, because the United States seeks to regulate reexports of its products and technical information and even of the goods made with the use of controlled information, major American trading partners may begin to seek alternate supply sources for sensitive products and technologies, even for benign products to be exported to sensitive areas, all to avoid the interference of American reexport controls. Any permanent diversion of trade brought about by such concerns could profoundly affect the relative economic and political power of the United States."

This erosion of market share has taken place with grain exports. Examples can also be found of U.S. equipment for which presumably permanent alternative suppliers have been found. Prominent here is the case of Caterpillar pipelayers. Prior to the first U.S. export controls on oil and gas equipment and technology imposed by President Carter in 1978, Caterpillar had captured 85 percent of the lucrative Soviet market for pipelaying machinery. The Japanese firm Komatsu had 15 percent of the market. Today, Caterpillar contends, these figures have been exactly reversed. In response to Soviet demand for a reliable supplier of equivalent equipment, Komatsu has added capacity. This, together with aggressive pricing and credit policies, has led to the Japanese developing into serious competitors. In March 1983 Komatsu announced that it had won an order to supply 500 pipelayers worth $210 million to the U.S.S.R. Caterpillar expects its market share to be permanently affected.

The second indirect cost of retroactive controls is even less tangible. It has to do with the chilling effect such sanctions could have on the climate in which U.S. firms operate and on the business decisions they may feel compelled to make:

> Concern over possible interruption of future transactions influences American exporters as well as foreign purchasers. Entering a new export market is an expensive and lengthy process. Concern over possible future controls may make the risks attendant upon researching and preparing a market, building customer relationships, and negotiating sales too high, especially for new and smaller exporters. Exporters' concerns are heightened when licenses appear to be denied because a foreign policy gesture is needed, when controls are issued retroactively or without opportunity for prior public comment, and when licenses are suspended or revoked or consideration is publicly given to doing so. In the view of many in American business and government, such actions have already chilled the efforts of business to increase exports, offsetting governmental efforts to promote them.[23]

Extraterritorial sanctions give rise to further economic problems. DOC has estimated that the continuation of the expanded extraterritorial sanctions imposed by President Reagan in June 1982, could have cost the subsidiaries and licensees of U.S. firms as much as $1.6 billion in business with the U.S.S.R. over 3 years.[24] Again, these are presumably estimates of direct costs, measured in terms of canceled contracts. It is not known whether probable spinoffs to those contracts for main-

**Kenneth W. Abbott, "Linking Trade to Political Goals: Foreign Policy Export Controls in the 1970s and 1980s," *Minnesota Law* Review, vol. 65, No. 5, June 1981, pp. 827-828.

[23]Ibid., p. 829.

[24]Olmer, op. cit., p. 11.

tenance, spare parts, follow-on, etc., are included in the estimate. But extraterritorial sanctions also inflict indirect costs.

Foremost among these is the potential effect of extraterritorial export controls on trade between the United States and Western Europe and Japan. This so-called West-West trade is many times more important to the U.S. economy than trade with the Soviet Union. Yet the sanctions may well have a long-term adverse effect on the U.S. reputation as a dependable business partner to countries other than the U. S. S. R.:

> Any company in the world considering the purchase of American technology as opposed to, say, Japanese technology, now has to think about the possibility that the U.S. Government at some point in the future for foreign policy reasons may undertake sanctions against that company to stop its exporting that product to some other country,[26]

The extremely broad scope of the sanctions, which left numerous unresolved legal and commercial problems in their wake, intensifies this problem." As promulgated, the regulations which implemented the President's June 1982 embargo covered a wide variety of goods and services with no necessary connection to the United States or even to the West Siberian gas pipeline; and they entangled a wide variety of persons, entities and business relationships worldwide in a complex and largely untested portion of U.S. export control law. In the opinion of a lawyer who has studied these issues, the regulations were so drafted as to cover the following cases:

> [I]f a British bank–having no connection with the United States—had financed a German company's export of trucks with U.S.-origin tires to a subsidiary of the French Company, Creusot Loire, in Morocco (Creusot Loire being one of the blacklisted companies) to deliver heating oil to homes in Fez, Morocco, the British bank, the German company, and the French company could have been in violation of U.S. law. By the same token, if a U.S. company exported U.S.-origin sheet metal to John Brown in England, one of the blacklisted firms, for use in a refinery in China, the U.S. company, John Brown, and the Chinese refining enterprise could have been in violation of U.S. law. [27]

The revocation of the U.S. sanctions has mooted attempts in the courts to define their scope. Thus, the potential scale of the impact of U.S. export controls remains largely undefined.

It is, of course, disingenuous of U.S. firms to assert or imply that U.S. export control law is likely to be applied in cases like those outlined above. But it is similarly naive to deny that the possibility of such actions casts a pall over the conduct of international trade. The fact that the June sanctions evoked such an intense negative reaction in the United States and abroad argues that they struck close to the nerve in those areas of the economy involved in international trade. Multilateral deals are highly intricate, potentially involving multifarious second and third order relationships in several nations. Extraterritorial controls can therefore have many unanticipated and undesirable consequences as their impact spreads in a ripple-like effect to numerous and varied interested parties.

"Edward A. Hewett, in *Economic Relations With the U.S.S.R,* p. 60.

[26]This section is based on Stanley J. Marcuss, in Library of Congress, Congressional Research Service, *The Premises of East-West Commercial Relations: A Workshop Sponsored by the Committee on Foreign Relations, United States Senate* (Washington, D. C.: U.S. Government Printing Office, 1983), pp. 45-77.

"Ibid., 'p. 55.

SUMMARY AND CONCLUSIONS

Although the magnitude of U.S. trade with the U.S.S.R. has never been great enough to have a significant impact on the economy as a whole, it is economically significant in three respects. First, it can be extremely important to the strength or even to the survival of specific firms or product lines. Second, the indirect impacts of restricting East-West trade are potentially many times greater than the direct costs, depending on what restrictions are imposed and how they are implemented. Finally, East-West trade is not conducted in isolation; exporters are involved in a complex web of international commercial relationships. Government actions aimed at one part of these relationships risk damaging other aspects, and thereby inflicting unintended and unanticipated harm to the competitiveness of U.S. firms in international markets.

These effects are real, but they are largely unquantifiable. Assessing their importance relative to the political and military consequences of trade and export control is both subjective and controversial. As would be expected, the business and defense communities in the United States have taken opposite positions on the question of where the benefit of the doubt should lie-on the side of trade or the side of control. Although no such determination can be made here, it would seem that improving the predictability of export administration policy, regardless of the strictness or leniency of that policy, would go a long way toward ameliorating some of the negative impacts of U.S. export controls on the U.S. economy.