A Corporate Perspective On Trading With The Soviet Union

by H. Richard Kahler

Mr. Kahler is manager of governmental affairs for the Caterpillar Tractor Company. He spoke at the opening session of the American Committee's 1986 Forum on U.S.-Soviet Trade Relations.

The introductory materials for this Trade Forum say that "America's trade policy toward the Soviet Union is neither well understood nor effective." I think that's true, and I know that America's on-again, off-again interest in trade policy is a great bewilderment to our international trading partners. It certainly is to those of us trying to compete in the international marketplace.

I believe there's a reason for that. We talk a lot these days about the importance of exports from the U.S., and their relation to jobs in this country and to overall economic prosperity. But whenever a "crunch" comes, when there's a showdown of some kind between trade objectives and other domestic or foreign policy goals, the trade policy objective almost always loses.

We can't blame all of our $150 billion trade deficit on this problem. But it's clear, beyond a doubt, that the U.S. tendency to give trade a low priority has contributed greatly to the present U.S. trade "crisis."

Now, to connect this up with the subject of East-West trade, and my assignment of presenting a Caterpillar "case study": In my view, the U.S.' lack of a national commitment to a strong trade performance has contributed to the making of unsound, and nonretractable, decisions that have undermined the ability of many U.S. companies to compete effectively for the substantial business potential that exists in the Soviet Union. Though overall bilateral trade is not large, for some U.S. industries and companies there is a sizeable market. U.S. government decisions that reduce our ability to sell in the Soviet market may undermine U.S. companies' vitality and competitiveness in other markets as well. And ultimately, they affect U.S. economic performance and employment.

Let me recall for you the Caterpillar story, as it relates to trade with the Soviet Union. It deals largely with the development of the Soviet oil and gas business, from which we and other U.S. firms were improvidently excluded.

Up until the late 1970's we fared pretty well in the competition for all Soviet business, and especially that for large track type tractors ("bulldozers") and pipelayers. From 1970 to mid-1976 we estimate that Caterpillar had an 85 percent market share, for those large machines.

A July 1978 directive by the Carter Administration then ordered restrictions on exports to the USSR because of Soviet human rights violations. High technology items for exploration and production of natural gas and oil were among the restricted items, and our pipelayers were included in the restrictions.

The immediate impact was to introduce an element of delay and uncertainty in our exports to the Soviet Union. A contract for the sale of 150 pipelayers had been negotiated shortly before the 1978 controls were imposed. But now we needed an export license. This one was approved without much delay. But as shipments of parts needed to be licensed, there was more delay and more uncertainty.

Caterpillar and other U.S. manufacturers came in due course to be viewed by the Soviets as unreliable suppliers. Processing time increased. Over six months elapsed before Caterpillar obtained a license to export 100 Model 594 units sold in early 1981. In the meantime, the Soviets were purchasing regularly from Komatsu, in Japan, without even contacting us for a bid. The reputation we had earned—for superior parts support and reliable machine delivery—was being destroyed.

The restrictions had a dramatic impact on the distribution of Soviet business among potential suppliers. Our 85 percent market share deteriorated to 15 percent by 1981. Komatsu, our top international competitor, had garnered the 85 percent Caterpillar once held.

A Soviet commitment in 1981 to purchase at least 1500 Komatsu units, while Caterpillar haggled with our government about the possible sale of 200 units, was indicative of the situation. In early December of that year, President Reagan okayed our license application, even though there was resistance in the Administration to any sales from the U.S. which would support completion of the pipeline to Western Europe.

But we in fact never got that license. Those in the Administration who opposed our sales slowed up the process so much that the President later reversed his decision when martial law was declared in Poland.

Those pipelayers, on which we had begun production, sat in a parking lot in East Peoria, Illinois until a few months ago. And for almost four years, Caterpillar has been essentially shut out of the Soviet market.

We estimate that in 1981 and 1982, had Caterpillar maintained the share of market it held before the Carter and Reagan Administration applied restraints, as much as $400 million of additional U.S. exports and 12,000 man years of employment of Caterpillar and its suppliers could have been generated. That was a time when the company had 15-20,000 employees on indefinite layoff.

We expressed our frustration in a letter to the President: "In short," we said, "we now have a situation where the Soviet market is closed to us; the Japanese have the business; the unemployment lines in Peoria have grown longer; and it appears that the Soviet gas pipeline to western Europe will be built anyway!"

Throughout this period Caterpillar stressed one point: Unilaterally imposed controls won't work. Over and over, we acknowledged that if U.S. allies would support the embargo we would have little room to complain about lost potential sales. But as it was the restrictions on Caterpillar accomplished only one thing: It transferred that business to Komatsu, and there's little doubt that their dominant position in one of the world's largest markets improved their cost structure and thus their competitiveness everywhere in the world.

Eventually, I suppose, the hurt of that competitive handicap—imposed by our own government—fades. What has

not faded is the damage done to Caterpillar and other U.S. manufacturers' reputation as reliable suppliers to the Soviets or any other importing country. Uncertainties imposed by erratic American trade policies inevitably cause potential buyers to question our ability to meet long-term commitments.

Let me tell you what a Soviet Minister said to Caterpillar President Pete Donis late last year. He said: "We prefer Caterpillar equipment, but theirs (referring to the Japanese) is cheaper, and it's good enough"; and, he concluded, "we can count on them."

We think we're now being tested by the Soviets: They gave us a tight delivery schedule to meet with that November order. We met it. We believe we've shown that we want to regain a place in their market. On the basis of price, quality and service we know we can do it. A period of sustained growth and stability in U.S.-Soviet trade will help us accomplish our objective.

It's up to our government, as I see it, to foster that growth and to assure the Soviets that we desire stability. For our best commercial efforts will still go unrewarded if there's not an attitude of trust in the trading relationship. Unless this country has learned that lesson, our chances for long-term success in the Soviet market aren't very great.

Based on our experience, we feel strongly that better trade relations can foster better overall political relations, which in turn can foster more economic and cultural ties . . . and so on. That's the hope and the promise of last year's Summit. And it's the opportunity represented in the coming months' work by this Trade Forum of the American Committee on East-West Accord.

U.S.-Soviet Trade and the National Interest: Assessing the Costs and Benefits

by Gary K. Bertsch

Dr. Bertsch, a professor of politial science at the University of Georgia, prepared the speech from which the following extracts are adapted for the American Committee's 1986 Trade Forum.

All Americans agree that it is in our national interest to protect and promote our economic welfare, democratic values, and national security. However, within a vibrant democracy, there will always be considerable difference of opinion about particular policies that might contribute to these general goals. Certainly, such a debate surrounds the question of U.S.-Soviet trade and the national interest.

Unfortunately, much of the debate about U.S.-Soviet trade is ill-informed and much of our resulting policy runs counter to any reasonable conception of the national interest. Let me be clear: U.S.-Soviet trade is in the national interest and U.S. policy must do more to promote it.

The 1985 Report of the President's Commission on International Competitiveness speaks pertinently to this issue. It tells us to make trade a national priority: "The U.S. must articulate trade policy with a single strong voice." Has U.S.-Soviet trade been considered a national priority? Has U.S. policy been articulated with a single voice? Clearly and unfortunately, neigher is the case. Rather, over the last decade, U.S. policy in this area can be described as unclear, often inconsistent, and in many areas, excessively restrictive. It has done much damage to the national interest.

In my studies I have examined U.S.-Soviet trade and the national interest from three different perspectives: economic advantage, foreign policy, and national security. Let me summarize my research in each of these areas and share my observations about the costs and benefits of U.S.-Soviet trade today.

Economic Advantage

Economically speaking, U.S. policymakers have tended to overestimate the benefits of trade to the Soviets and underestimate them to ourselves. There are of course some economic benefits for the Soviets; yet, country-wide studies by Western researchers show little evidence that Western trade and technology have had a significant positive impact on the Soviet and East European economies as a whole. Research demonstrates a multitude of infrastructural problems and systemic shortcomings that limit the economic benefits to the Soviets and East Europeans. That is not sufficiently appreciated by U.S. policy makers.

Likewise, many Americans, and most importantly, key policymakers, underestimate the economic benefits of U.S.-Soviet trade for ourselves. Our balance of trade is benefited, and so is employment. Furthermore, Soviet investment strategy is opening up new opportunities for Western exporters. Recent projections show significant Soviet investment increases, and major opportunities for Western exporters, in machinery and equipment for oil extraction, coal mining and transport; power and electrical engineering equipment; machine tools and precision instruments; computer equipment, parts and components—to name just a few.

The President's Commission on International Competitiveness underlines the fact that we must compete; we must export. And while the Soviet and East European markets are neither trouble-free nor panaceas, they are significant. We must of course relate this to our global export performance. Past American policy has not only damaged our competitiveness in Soviet and East European markets, but it has undermined our credibility as a reliable trading partner worldwide.

Research indicates that the economic costs of "lightswitch" diplomacy are far greater than our policymakers appear to realize. The Presidential Commission estimates that extraordinary American export controls costs the U.S. economy $7.6 billion in lost sales annually.

Overall, then, my research and that of leading experts in the field indicates that a more positive trade relationship with the Soviet Union will bring about more economic