THE SOVIET UNION IN WORLD TRADE

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I. Introductory Remarks

A study on world trade published by the Soviet Ministry of Foreign Trade in 1940 expressed approval of the fact that the USSR ranked second among the nations of the world from the standpoint of industrial production and only nineteenth with respect to foreign trade. By 1956, however, the Soviet government was boasting of a trade turnover more than ten times the prewar figure and looked approvingly upon the progress of the USSR to sixth place among the trading nations of the world. (Soviet foreign trade in 1956, it noted, was 170 percent greater than in 1948. France, in contrast has registered a gain of 85 percent, the United States 59 percent and the United Kingdom only 35 percent during the same period. See Chart 1.)

Ever since 1917 Soviet policy has consistently sought economic independence fr om the rest of the world. Does the present rapid expansion of Soviet trade indicate a change in this historic attitude? Is the Soviet economy in fact dismantling its autarkic barricades and embracing radically new attitudes and patterns of trade? Anything more than a cursory examination of Soviet theory and practice with regard to foreign trade should suggest an answer in the negative. The advantages and desirability of international division of labor and world-wide exchange of goods have been stressed by Soviet leaders from Lenin to Khrushchev. If the actual policies of the Soviet government have been consistently directed toward rendering the USSR economically independent of the outside world, they appear to have stemmed from a quest for security from economic blockade and the desire to insolate themselves from economic fluctuations in the capitalist world, and not from any slavish acceptance of autarky as an integral element of socialist economy.

Thus Soviet trade policy in the prewar period had, in essence, two principal goals: The desire for expansion of trade with the West; and the quest for an economically self-reliant state. This apparent paradox in Soviet commercial policy -- efforts to increase trade on the one hand and an equally determined desire to achieve self-sufficiency on the other -- need not be a source of confusion for Western observers. The two policies, far from being mutually exclusive, serve to complement one another, selective trade with the West constituting a primary instrument for the more rapid achievement of the greater self-sufficiency the Soviet leaders so fervently desire.

With the establishment of a Communist trading bloc in the postwar period, and with Soviet productive capacity and reserves apparently deemed adequate to meet any unforeseen contingencies, an element of change became evident in the official attitude of the USSR toward foreign trade. The concept of trade as primarily an instrumentality for promoting Soviet industrialization and self-sufficiency was now merged, within the limits of Soviet capabilities, with an expanded use of foreign trade to achieve specific objectives of current foreign policy. The foreign economic activity of the USSR has become increasingly political in purpose, directed toward the political and economic domination of the Satellites, the economic penetration of underdeveloped areas and the nullification of Western export controls. This emergence of Soviet foreign economic activity as a powerful adjunct of Soviet foreign policy bears testimony not only to an increasing Soviet economic capability, but perhaps of

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even greater significance, to a new Communist appreciation of the role of foreign trade as a tactical weapon in its struggle with world capitalism. Well could Khrushchev, reflecting this new line, declare in September 1955, "We value trade least for economic reasons and most for political purposes as a means of promoting better relations between ... countries."

My purpose tonight is to examine with you the current role of the Soviet Union in world trade and to explore some of the implications for the Free World of the new Soviet economic diplomacy.

II. Soviet Commercial Policy: A New Approach

During World War II there was much optimism that the end of hostilities would inaugurate an extended period of peaceful commercial exchange between the USSR and the Western world. It was hoped by many Western countries that the Soviet government -- with its security adequately guaranteed and the immense task of reconstruction ahead -- would be willing to take its place peacefully in the family of nations. But these hopes went unfulfilled and international political relations after the war deteriorated rapidly.

With the establishment of a trading bloc in Eastern Europe an element of change was evident in the official attitude of the Soviet government toward foreign trade. The concept of trade as primarily an instrumentality for promoting Soviet industrialization and self-sufficiency was increasingly coupled with the use of the state

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trading monopoly to attain specific foreign policy objectives. Soviet foreign trade now assumed new functions in the socialist world. The Soviet monopoly of foreign trade had become, in the words of Mikoyan, "an instrument for the planned integration of the Soviet economy with the economies of the People's Democracies."

The Soviet effort to include its European Satellites in a self-contained trading area was epitomized in the summer of 1952, when Stalin promulgated the thesis of "the parallel world markets" in his last work, Economic Problems of Socialism in the USSR. Here, Stalin contended that "the disintegration of the single, all-embracing world market must be regarded as the most important economic sequel of the Second World War," and he warned the West that a strong and united socialist camp would soon prove to be a powerful commercial competitor for the capitalist powers. "It may be confidently said," Stalin wrote, "that with this pace of industrial development, it will soon come to pass that these countries (i.e., the Communist countries) will not only be in no need of imports from capitalist countries, but will themselves feel the necessity of finding an outside market for their surplus products." This Stalinist assertion that the world now encompassed two rival camps, one on the verge of economic collapse and the other strengthened by its isolation from the old decaying West, called a temporary halt to Soviet efforts to facilitate East-West trade.

Despite the steady emphasis on intra-bloc economic cooperation through mutual trade, the Soviet orbit apparently failed to become the completely self-sufficient unit the USSR had envisaged. The need for commercial intercourse with the West, now hampered by Free World trade controls, grew even more imperative for the

USSR as imbalances in the growth of certain of its economic sectors, as well as those of its Satellites, became more apparent.

There is no way of knowing precisely on what date the decision was made to launch the Kremlin's trade drive. But once made, there were manifestations of this new policy in every direction. An intensified propaganda campaign against Western trade restrictions, increased participation in the work of the Economic Commission for Europe, and expanded trade ties with Free World countries, all followed in rapid succession. In April 1952, the campaign to present the Soviet Union as a champion of peaceful trade was launched at an International Economic Conference in Moscow, where the lure of vast markets in the USSR was dangled before the eyes of Western businessmen.

At the Nineteenth Party Congress, held in 1952, further evidence was manifest that the Soviet Union would not seriously commit itself to the position implied in Stalin's earlier pronouncements. Malenkov stated at that time that "the Soviet Union has always stood for, and now stands for, the development of trade and cooperation with other countries irrespective of differences in social systems. The party will continue to pursue this policy on the basis of mutual advantage." Mikoyan, at the same Congress, echoed his future chief and declared that "the capitalist countries ... who want to develop trade with the Soviet Union on mutually profitable conditions will always meet with support from our side."

With the death of Stalin, an even greater impetus was provided to the Russian trade propaganda offensive, then already almost two years old. The new regime, motivated by the desire to procure materials, equipment, and to some extent consumer goods, and to continue Soviet efforts to undermine cooperation and trade controls among Free World nations, tried to convince the world that only increased East-West trade would promote mutual understanding and relax international tension. At Stalin's funeral in March 1953, Malenkov vowed to continue the work of his predecessors for the promotion of "international cooperation and development of business relations with all countries."

Upon the accession to power of Nikita Khrushchev, efforts were renewed, in light of the Kremlin's campaign for "peaceful competitive coexistence" to expand trade relations with the Free World. In an interview with five visiting U. S. Senators in September of 1955, Khrushchev told them that a deal on surplus American agricultural commodities would be "highly desirable." He hastened to add, however, that Russia's desire to expand trade

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with the United States was not the result of any particular economic need but rather represented a political goal. "We do not want your machines to create atomic energy or to build hydrogen and atomic bombs," Khrushchev declared. "We have plenty of machines ourselves that can do that. With us questions of trade are not mainly economic. They are practical. We want more trade because we think that will help to improve political relations."

Notwithstanding Khrushchev's protestations of Soviet self-sufficiency, he perhaps betrayed the true meaning behind the Russian trade offensive when he closed the interview with a characteristic tirade against what he termed "silly" Western trade restrictions and inveighed against America's unwillingness to let the Russians buy heavy machinery and machine tools. "You want to buy our manganese," Khrushchev said, "but you want to sell us toys!"

At the Twentieth Party Congress, held in January 1956, the restrictive implications for trade contained in Stalin's "two market" concept underwent further modification. Mikoyan denied that the existence of two world markets precluded trade between countries and foresaw mutually profitable trade relations between the East and the West. Moreover, he took a position unique in recent Soviet pronouncements -- that there was much to be gained from universal division of labor.

Abroad too, Soviet representatives were vigorously pursuing their trade offensive. At the April 1956 meeting of the United Nations Economic Commission for Europe, Russian Foreign Trade Minister Ivan Kabanov held forth glittering opportunities to Western Europeans if only they would overcome their fear and

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suspicion and remove all "strategic" controls from trade with the USSR. In a dramatic gesture, the Soviet delegate presented a proposal for drafting an All-European Agreement on Economic and Technical Cooperation within the framework of the ECE.

Apparently undaunted by the lack of any positive response in the 28-nation committee, similar proposals were submitted in 1956 to the UN Economic and Social Council, in July, and to the General Assembly itself, in November. Although few concrete results are expected from these Soviet maneuvers in the United Nations, they may well herald the beginning of a more accelerated and well-publicized Soviet campaign to portray the USSR as a champion of increased East-West trade.

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Although it is perhaps too early to predict the inclusion of a new element in the Soviet Union's basic foreign trade doctrine, there is evidence to suggest that postwar Soviet foreign economic activity has assumed a decidedly more political orientation than it had in the past. The consolidation of the USSR's military power, the creation of a Communist trading bloc, and technological developments in Soviet industry have apparently enabled Moscow to employ foreign trade more fully for the achievement of specific foreign policy objectives. With increasing intensity, the Soviets have utilized their foreign economic relations to secure the political and economic domination of the Satellites and the economic penetration of underdeveloped areas, and to conduct a propaganda offensive designed to create dissension in the West and to weaken Free World security controls.

For the next few moments, however, let us turn our attention to some of the more practical manifestations of the current Soviet trade offensive.

III. The Pattern of Soviet Foreign Trade

Foreign trade plays a relatively minor role in the economy of the Soviet Union. In 1937 Soviet trade turnover (exports plus imports) was equal to 2.5 percent of the gross national product; in 1949 it was 3.3 percent and by 1955 it had risen to only 4.6 percent. By comparison, the relationship of U.S. trade turnover to a much higher gross national product for those years was 7 percent, 7.2 percent and 7 percent respectively.

In terms of total world trade, Soviet trade has been and probably will continue to be of little quantitative significance. In 1931, the peak prewar year of Soviet foreign trade, the USSR accounted for little more than 2 percent of world exports and less than 3 percent of world imports. Since the end of the War, Soviet trade to world trade has risen steadily and in 1955 it totaled 3.7 percent of world trade, placing the USSR in sixth place among the trading nations of the world. (Chart 2 illustrates the rapid growth of Soviet world trade, and particularly its trade with the Satellites.)

A. The Free World

Soviet trade turnover with non-Bloc countries rose from $1,079 million in 1954 to $1,216 million in 1955, a percentage rise of 12.7 percent. This increase is small, however, in comparison with the 24 percent expansion in the trade of the rest of the Communist states with the Free World during the same period.

Approximately 80 percent of USSR trade with the Free World in 1955 and 1956 was with the countries of Western Europe.

A rise of about 25 percent in Soviet exports to the Free World, coupled with relatively stable Soviet imports from that area, resulted in a favorable balance of East-West trade for the

USSR in 1955, an unusual condition in the Soviet Union's postwar trade. Its exports to most West European countries exceeded its imports and it earned its most substantial export surplus, as in 1954, from trade with the United Kingdom. The 1955 performance appears to have been only temporary, however, and did not initiate any trend, as evidenced by the sizable Soviet import surplus for 1956, estimated to have been at least $150 million.

B. "Ruble Diplomacy" in the Underdeveloped Areas

Let us turn to what is perhaps the most dramatic aspect of the new Soviet economic diplomacy: the Communist Bloc entry into the foreign lending field especially in the lesser developed areas. After years of denouncing foreign aid as an unvarnished instrument of Western imperialism, the USSR and European Satellites have now signed agreements to extend to 11 underdeveloped countries about $1.4 billion in credit for the purchase of Soviet Bloc goods and technical services -- including arms. This is more than double the level of credits outstanding at the end of 1955. On the basis of reported offers, the largest single beneficiary is to be Yugoslavia with $464 million; although this requires qualification in light of precarious Soviet-Yugoslav relations. With the exception of Yugoslavia, the emphasis of this lending drive has been on the underdeveloped nations of the Near East and South Asia. Three of these nations, Egypt, India, and Afghanistan, account for the bulk of the total remaining credits. The USSR is providing a little over half of the credits extended and the European Satellites the remainder.

The composition of these Soviet Bloc credits reveals a fairly wide variety of projects for developing industry, power, transport, and mineral resources as well as facilities for scientific research and education. In each case, projects have been skillfully devised to have a particular appeal to the recipient country, and it must be recognized that, initially at least, the psychological impact of the assistance has been substantial. We should not underestimate the favorable impression which the Soviets have made on most of the recipients by the speed with which they have completed loan negotiations and moved to implement agreements, and by the quality of equipment and technical service furnished thus far.

In looking at recent Soviet economic activities abroad, however, we tend perhaps to be overly impressed with their foreign aid program and we tend to lose our sense of perspective as to the dimensions of this venture and its place in the overall volume of Soviet trade. The aid efforts of the Communist Bloc are certainly novel and spectacular, but the magnitudes involved are still relatively modest. As we have already noted, the credit agreements actually concluded by the Bloc now aggregate roughly one and one-half billion dollars; a major portion of these agreements were concluded during 1956 and the credits will be drawn on over a period of about five years. Thus the annual flow of trade resulting from these arrangements, although large to the recipients, will not bulk large in world trade. Moreover, both this and other Soviet efforts to promote trade with the underdeveloped countries have been launched from an extremely slender base of existing commodity exchange, so that despite these new trade and aid arrangements, few underdeveloped countries as yet conduct more than ten percent of their trade with the Bloc. I do not wish to imply that the Soviet effort in this area may not be highly effective, but its effectiveness stems from its selectivity rather than its size.

Another point to bear in mind is the fact that the Soviet excursion into the underdeveloped areas represents only a small portion, and a quite unrepresentative portion, of overall Soviet trade activities. The overwhelming bulk of Soviet trade (more than 90 percent) is conducted within the Communist Bloc and with the countries of Western Europe.

C. A Word About Soviet Gold

Perhaps I would be remiss if I did not at least make mention of the recent heavy sales of Soviet gold which have already elicited much comment and speculation in the press and elsewhere. The sales of Soviet gold in 1956, estimated at around $150 million, are not difficult to rationalize. It seems evident that these

Soviet sales can no longer be accounted for simply in terms of normal replenishments of Soviet sterling reserves. It is true, of course, that despite trade surpluses with the Sterling Area in the past, Soviet sterling resources are not believed to be large and the demand for transferable sterling with which to settle the Soviet Union's net deficit with other non-dollar countries has not measurably diminished. But it is the abnormally heavy Soviet purchases of raw materials and semi-processed materials in the Sterling Area during 1956, coupled with the increasing Soviet assumption of Satellite foreign exchange obligations, that appears to be the major motivation of the recent Soviet s ales.

While doctrinal inhibitions apparently do not prevent the Soviets from using gold either to settle moderate import surpluses or to extend economic assistance to friendly nations, it appears unlikely that the USSR will resort to gold financing on any large and permanent scale. If this be true, a question worth pondering, for a moment, is the rationale behind what appears to be the inordinately large Soviet gold reserve, far larger than the prescribed 25 percent gold backing for the ruble would appear to require.

Has the USSR thus far refrained from any large scale diminution of its sizable gold reserve in the continued belief in the inevitability of a major capitalist crisis during which Soviet gold stocks could be employed with much more telling effect? It has often been suggested, of course, that the USSR may "dump" gold on the world market in an attempt to further disrupt already dislocated Free World economies.

The answer, certainly, cannot be given here with any finality. If the Soviet Union does indeed intend to employ its gold reserves as a weapon of economic warfare, Soviet economic writers are, quite understandably, reluctant to discuss the matter. It does appear unlikely, however, that the Soviet Union seriously harbors any such plan. Any economic dislocations which would result from Soviet "dumping" -- in view of existing national and international devices to insulate Free World economies from such contingencies -- at most, would be merely temporary. Furthermore, if such a policy were vigorously pursued, its effects could act as a stimulant to faltering Western economies through a reinforcement of foreign exchange reserves and might depress the price of gold to the great disadvantage of the USSR, itself a major gold producer.

The answer might more properly be sought in the peculiar, almost mercantilist pre-eminence which the Soviet Union attributes to its store of precious metals, and most particularly to its gold reserves. This psychological attachment to gold, however, may be explained on several very practical grounds. The Soviet quest for security, which so dominated Soviet thinking in a period when the USSR considered itself "an oasis in the capitalist encirclement," has lost none of its urgency in an era when Soviet confidence in the strength and security of the "socialist camp" has undoubtedly been shaken by Satellite manifestations of economic and political independence. The emphasis on large and evergrowing state reserves as a protective buffer against the economic encroachments of world capitalism has not measurably abated. Soviet gold reserves in the words of the Soviet economist Notkin still "provide the insurance necessary to protect the USSR from major shifts in international market conditions, the possibility of partial or general economic and financial blockade, the possibility of crop failure within the country and the possibility of direct armed assault upon the USSR."

D. The Soviet Bloc

At the Twentieth Congress of the Communist Party, Premier Bulganin announced that Soviet trade with the rest of the Bloc in 1955 totaled 19.5 billion rubles, nearly 5 billion dollars. This figure, however, represents a slight decrease in Soviet trade with its Satellites from 1954 levels, the first such decline since the development of the so-called "Socialist" world market. China still remains, by far, the largest bloc trading partner of the USSR, accounting for approximately a third of total Soviet trade with its Satellites.

The recent decline in Soviet trade with its European Satellites can be explained in a variety of ways. One apparent reason was the failure of the Soviet Union to maintain its previous level of consumer goods exports, particularly grain, to Eastern Europe, where two bad harvests had raised import requirements. Consequently, the Satellite quest for foreign exchange with which to purchase needed goods in the West necessarily led to a forced expansion of their exports to that area. However, current Soviet economic policy demonstrates an obvious difference in approach in its relations with its European Satellites. In the case of Poland, the degree of political automony granted carries with it a certain economic freedom and, in point of fact, Poland's trade has displayed an increasingly Western bias. On the other hand, it would be hard to argue that the Hungarian uprising has not resulted in the resurrection of some degree of Stalinist control in Eastern Europe, and the loans and promises of increased trade and aid to the Satellites both before and after the rebellion would seem to indicate that economic ties, too, are being fairly firmly maintained.

Nikita Khrushchev's disclosure at the Twentieth Party Congress that the USSR has thus far extended to countries of the Soviet Bloc credits totaling 21 billion rubles ($5.25 billion) and subsequent announcements of long term credit extensions to Bulgaria, East Germany and Poland in 1956, heralded a new and well publicized Soviet program of economic aid to its European Satellites. China has also been a major recipient of Soviet aid. Since 1950 the USSR has extended to China an industrial loan of $300 million and military loans which averaged about $500 million annually during the years 1953-1955.

The rationale for this new Soviet move with regard to its European Satellites is fairly clear. The USSR must either help alleviate the acute shortage of foreign exchange and consumer goods which plagues the European Satellites or risk a recurrence of the political unrest already evidenced in East Germany, Poland and Hungary. Perhaps, too, the Soviets feel it politically expedient to appear more sympathetic to the economic needs of the Satellites in view of the USSR's announced policy of economic assistance to non-Communist countries.

On balance, it seems a fair guess that Soviet aid to the Satellites will in the future continue to include some proportion of straight financial aid, leaving them freer to call on Western rather than Soviet industry to meet some of their needs. Recent Soviet sales of gold for sterling reinforce this feeling and I would think such sales presage anything but a diminution of East-West trade.

IV. Commodity Composition of Soviet Foreign Trade

The problem of what to export is a perennial one for the USSR and its East European empire. The major traditional exports of most of those countries have been the products of farm, forest and mine. Yet, these products are hungrily sought internally by those responsible for the ambitious heavy industrial program which has been the main economic goal of Soviet planners. Furthermore, Soviet predilection toward the creation of an industrial empire has stacked the cards against agriculture thereby diminishing Soviet export capability in that area. At the same time, Soviet industrial goods are not yet competing very successfully in world markets where similar products of Western industry are available. Certain basic types of Soviet heavy machinery and equipment have found a ready market, however, in the lesser developed Bloc and Free

World countries.

The most significant change in the commodity composition of Soviet foreign trade since the end of World War II has been the emergence of industrial equipment as a major component of Soviet exports. The Soviet government has recently reported that machinery and equipment made up 22 percent (an estimated 700 million dollars) of its exports to all markets during 1955. This contrasts with 1938, when only 5 percent of Russia's exports consisted of goods in the machinery category, worth approximately $13 million in prices of that year.

Another major change that emerges from the latest Soviet data on trade is the decline of grain as a dominant export item. In 1955 grain accounted for little more than 10 percent of total exports compared with over 20 percent recorded for 1938.

Considering the growth of domestic requirements, Soviet grain production figures hardly suggest that the USSR is about to regain the old Russian pre-revolutionary position as a major world exporter of grain.

Apart from machinery and grains, a variety of raw materials continue to make up the core of the Soviet export potential. This broad group of commodities accounted for 57.7 percent of total Soviet exports in 1938. In 1955, this share remained virtually unchanged, amounting to 59.9 percent of all exports. Within this broad category, however, a number of notable changes have occurred. Exports of semi-processed metal and raw cotton have increased markedly. Coal and petroleum exports remained on a par with 1938, as a proportion of total value of goods shipped out of the country. At the same time, exports of raw furs and lumber

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declined in relative importance.

A. Trade with the Free World

The Commodity pattern of Soviet imports from Free World areas during 1955 showed a marked shift towards increased procurement of industrial equipment and ships. The record for the year shows an increase of 27 percent in 1955 shipments to the USSR in the broad category of machinery and transport equipment.

Imports of metal into the USSR during 1955 doubled the value of the previous year, namely $57 million as against $28 million; the largest element in this expansion was copper wire. Soviet imports of foodstuffs declined somewhat from the 1954 level, despite an increase in Soviet imports of sugar and rice. The absolute decline was due in part to reduced purchases of meat and the cessation of butter imports.

Soviet exports to the Free World continue to demonstrate an increasingly high proportion of crude materials, mineral fuels and lubricants which together have accounted for approximately 42 percent, 54 percent and 59 percent of total Soviet exports to the West in 1953, 1954 and 1955, respectively.

B. Trade with the Soviet Bloc

While precise information on the composition of Soviet trade with Bloc countries is scarce, there is little evidence to suggest any major change in the general pattern of Soviet-Satellite commodity trade in 1956. On the basis of published trade agreements and other data the USSR apparently still remains, with the Bloc as with the Free World, a net importer of capital equipment, while the bulk of Soviet exports to its European Satellites consists of raw materials, fuel and foodstuffs.

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V. Conclusions

What then can we conclude from this rather brief survey of the role of the Soviet Union in world trade? Let us, for a moment, disregard dramatic Soviet excursions into the underdeveloped areas and flamboyant propaganda gestures emanating from Moscow, and focus our attention, rather, on those areas toward which the overwhelming bulk of Soviet trade is directed i.e., the Satellite Bloc and the countries of Western Europe. It is here, I think, that we must look for a clue as to whether Soviet trade is in fact undergoing a transformation.

What do we f ind when we look at the volume and commodity composition of this trade? Despite substantial gains in recent years, the volume of USSR trade remains unimpressive. With a total trade turnover comparable to that of the Netherlands, the USSR accounts for little more than three and a half percent of total world trade. Within its own Bloc we find the Soviet Union a net importer of capital equipment, absorbing nearly half the capital goods exported by the Satellites, while the bulk of Soviet exports is made up of raw materials, fuels and food. When we look at Soviet trade with the West, we similarly find that its exports are dominated by raw materials and semi-processed goods. An interesting recent development is the emergence of oil as a major foreign exchange earner. Its imports continue to be predominantly manufactured goods. Soviet imports of machinery and equipment, particularly, have been growing steadily while exports in this category, though expanding at a rapid rate, remain quite small.

In other words, when we look at what has actually been happening to the volume and commodity structure of Soviet foreign trade we find little, if any, significant shift away from the traditional pattern.

What then are the implications to be drawn from the current position of the USSR in world trade? I think, first, in light of critical shortages in the USSR and the increasing economic demands of its Satellites, shortfalls in planned production might be countered to a rather greater extent than hitherto by imports. This is most likely to concern foodstuffs where, in spite of this season's successes, and anticipated higher levels of agricultural production, fluctuations in weather might cause temporary shortages to be met by increased imports.

Secondly, the fundamental order of Soviet priorities is not likely to be altered in the near future; certain raw materials and machinery for industry are still more likely imports than consumer

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goods. The much vaunted Soviet export capability in heavy industry will probably be devoured by the ambitious growth rates of the Soviet Five Year Plan and the heavy demands of the developing economies of Eastern Europe and particularly China, and will probably make no serious inroads on world markets outside areas singled out for special attention by Soviet diplomacy and propaganda.

Thirdly, there seems little doubt that the modest but ingeniously designed Soviet efforts in underdeveloped areas have reaped significant political and economic rewards. Although exports of capital goods might tend to intensify Soviet domestic economic problems, the goods which the Soviets receive in return, especially agricultural commodities, have a countervailing effect. With its total aid program only a small fraction (less than one percent) of Soviet GNP, there is every evidence that the USSR has the capability to carry on indefinitely with an economic program of the type undertaken in the undeveloped areas of the Middle East and Asia during the past two years.

Finally, any move toward significant expansion of Soviet trade with the Free World would appear to be inhibited by the continuing reluctance of the Soviet Union to tolerate more than a minimum degree of dependence on external sources of supply. The apparent difficulty of finding goods for export to the West is as much a political phenomenon as it is an economic one. The USSR, with large and diversified economy, could certainly enjoy more of the advantages of foreign trade if it only wanted to do so. True, there appears to be some official recognition of the advantages of international specialization and some efforts have been made to promote an intra-Bloc division of labor, but the Soviet quest for self-sufficiency cannot but exercise an important limiting influence on the magnitude and growth of Soviet foreign trade.

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