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WEEKLY SUMMARY

Special Report

Soviet Foreign Trade: Patterns and Prospects

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Patterns and Prospects

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Although Moscow's foreign trade has grown rapidly in recent years—ten percent annually on the average since 1966—the volume of this commerce last year amounted to only $25 billion. This comes to only some five percent of estimated Soviet gross national product. The comparable US figure is nine percent. The low Soviet ratio reflects in part the USSR's relative self-sufficiency in fuels and raw materials, which is not surprising as the country occupies approximately one sixth of the world's land area. The low ratio also reflects the ingrained drive toward autarchy that has characterized the Soviet Union almost since its earliest years. During the past decade, however, this proclivity has given way to a realization that a primary means for modernizing the Soviet economy is the acquisition of advanced technology in the form of plant and equipment as well as licenses and patents from the developed West (including Japan). Yet the Soviets have not been able to get as much of this advanced technology as they would like despite the large increase in their trade with the West.

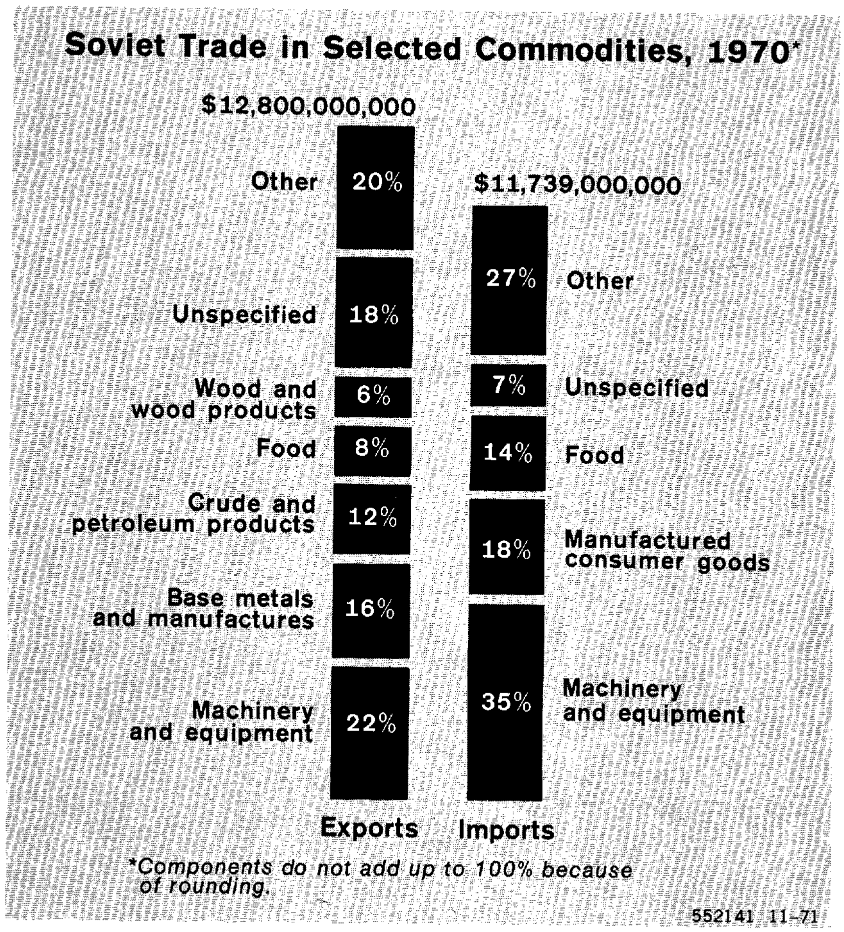
Background

This situation has obtained for both economic and political reasons. Half a century of forced development based largely on internal resources of men and material has resulted in an inefficient, in many ways obsolescent, economy with the conspicuous exception of the military-space sector. It is a system unable to generate the volume and variety of quality exports acceptable in the developed West needed to support the level of advanced imports Moscow would like. Trade with the West has relied heavily on credits extended by the supplier countries or firms and on sales of gold. The level of the USSR's debt to the West, however, and especially the Soviets' debt service ratio—i.e., repayments plus interest as a percent of exports—may soon reach a level that is the maximum acceptable to the Soviets. Moreover, Moscow has been chary about selling gold in any appreciable amounts since 1965 as the Soviets evidently wish to rebuild their reserves after ten years of steady depletion.

The political facet of Moscow's trade problem has been the need to export to Eastern Europe a large amount of raw materials and fuels—including petroleum—on which the USSR relies to earn the bulk of its foreign exchange in the West. Moscow receives in return a multiplicity of products from Eastern Europe, but these countries can provide only a small fraction of the products and know-how most sought by the Soviets. For political reasons, however, they are Moscow's leading trade partners. The six East European countries, plus Cuba, were the only states with which the USSR had a trade turnover of more than $1 billion last year. Political considerations also are responsible for the inclusion of Egypt, Finland, and Yugoslavia in the category of countries with which the USSR had a trade turnover of more than $500 million in 1970. Among the developed Western countries, the USSR was able to generate trade of this volume only with Japan, Great Britain, Italy, and West Germany. Eight other industrialized Western countries—including the US—had more than $100 million in trade with the USSR last year.

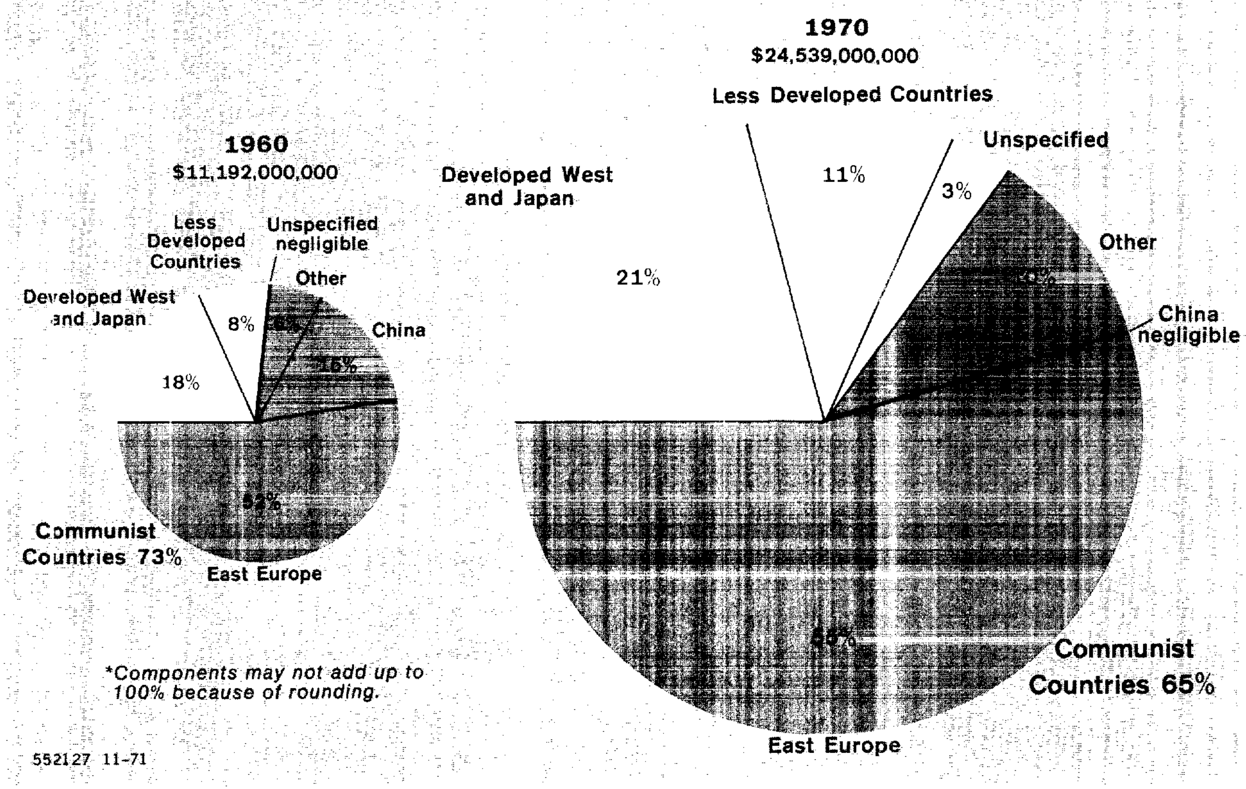
Composition of Trade

The commodity composition of Soviet exports and imports last year reflects accurately both the recent and prospective pattern of Soviet trade. Machinery and equipment loom large in both imports and exports but with a decisive difference. Soviet exports of this type mostly go to Eastern Europe and secondarily to the less developed countries, but almost a third of such imports come from the developed West. Fuels, raw materials, and, to a lesser extent, grain form the bulk of Soviet exports to East European countries while machinery and equipment—especially rolling stock and ships—make up the largest single category among Soviet imports from this area. It is not surprising that the Soviets are unable to procure from Eastern Europe the high-technology imports their economy requires. By forcing these economies into the Soviet mold, the USSR has deprived the most advanced of them of the opportunity to remain on the technological frontier.



Soviet trade with the less developed countries largely follows the movement of Moscow's aid programs in these areas. Thus, the largest current recipients of Soviet economic aid—Egypt, India, Algeria, and Iran—are also Moscow's leading trading partners in the third world. Aid deliveries and repayments account for a significant share of this trade. Soviet exports to the less

Geographic Distribution of Soviet Trade, 1960 and 1970*



developed countries consist largely of complete plants as well as machinery and equipment for aid projects in exchange for textile fibers, food, and to a lesser degree, manufactured consumer goods.

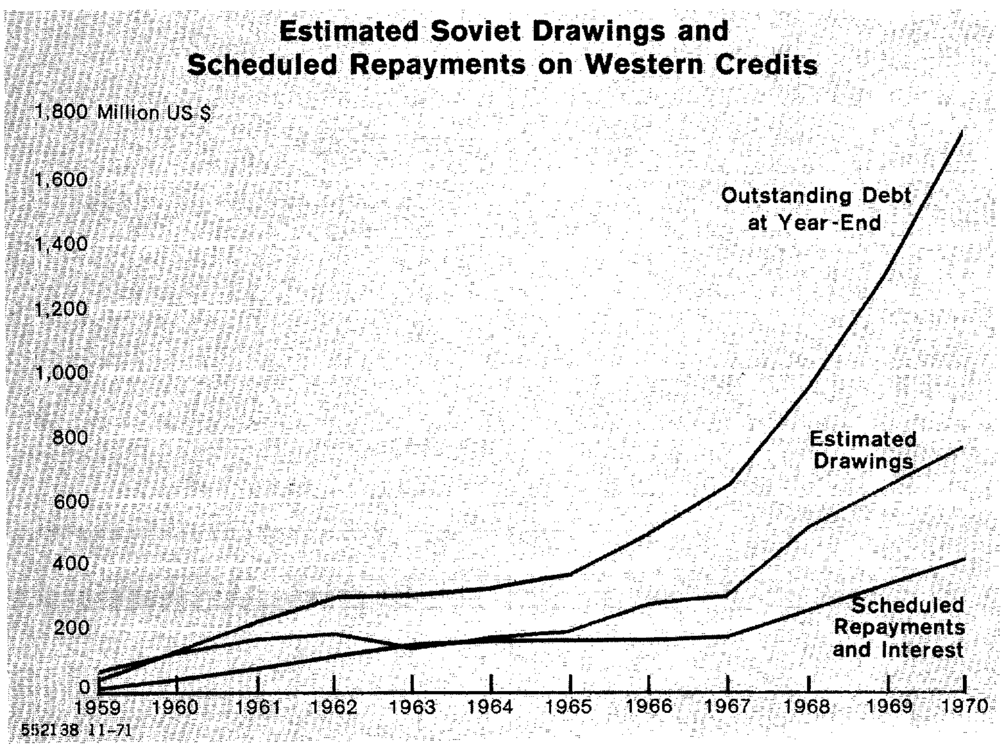
Distribution of Trade

Soviet foreign trade increased roughly one and a half times in the decade of the 1960s, with the rate of growth most rapid after 1966. This growth was paced by commerce with non-Communist areas, especially the less developed countries. Trade with Communist countries also increased except with China, where trade plummeted from $2 billion in 1959 to less than $50 million last year. The trade pact with the Chinese this year reverses this pattern and, if planned goals are achieved, China will join the countries having trade of more than $100 million with the USSR. Eastern Europe provides the major share of total Soviet trade—55 percent in 1970—and accounts for almost 85 percent of Soviet trade with Communist countries. Trade with all Communist countries, in turn, declined from about three fourths to about two thirds of total Soviet trade since 1960.

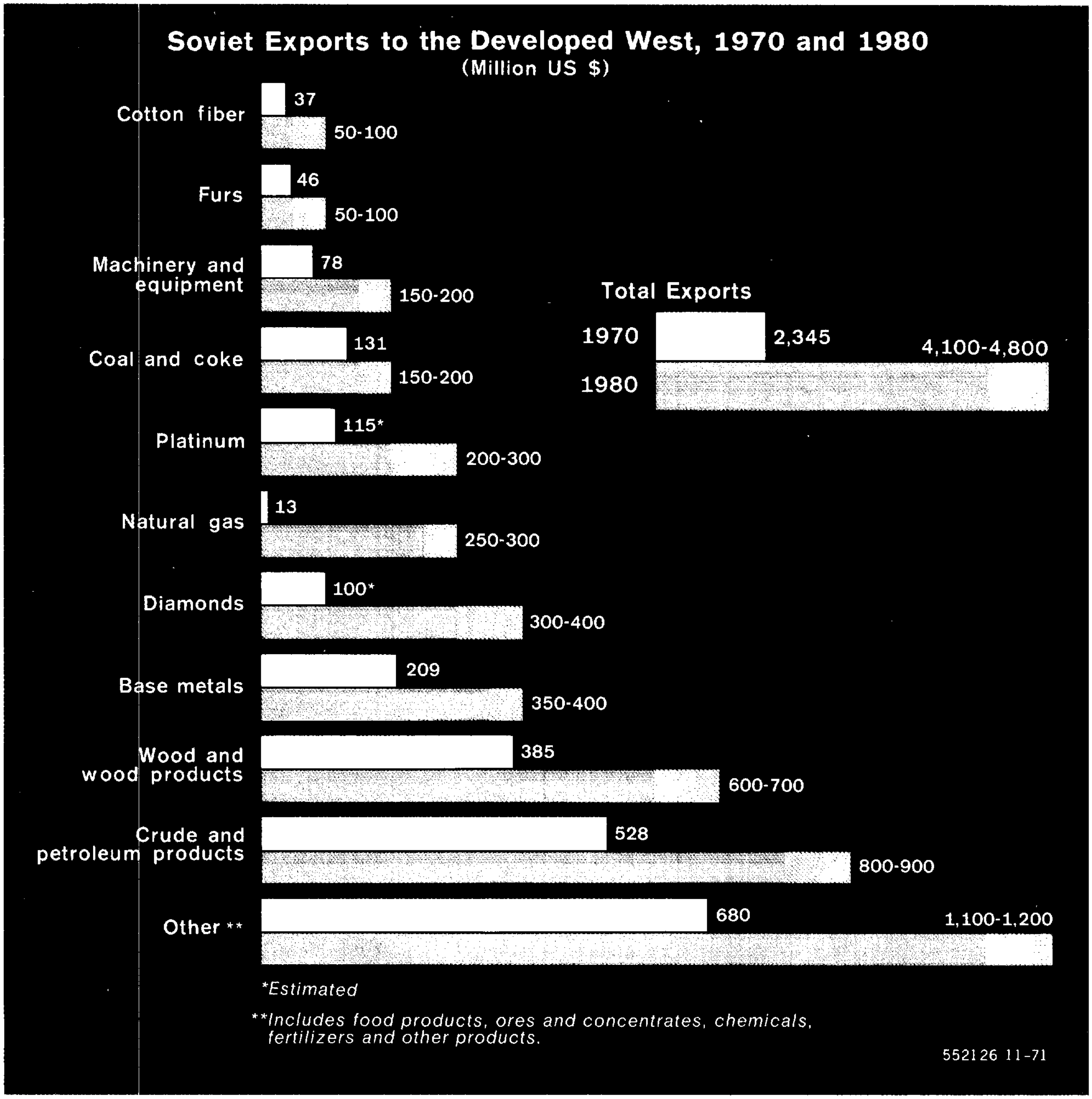
Hard Currency Trade

Soviet trade with the developed West poses a crucial and continuing problem for Moscow. For political reasons, Moscow pursues the economic

Soviet Hard Currency Trade



Estimated Soviet Drawings and Scheduled Repayments on Western Credits


Soviet Exports to the Developed West, 1970 and 1980
(Million US $)
Cotton fiber
37
50-100
Furs
46
50-100
Machinery and equipment
78
150-200
Coal and coke
131
150-200
Platinum
115*
200-300
Natural gas
13
250-300
Diamonds
100*
300-400
Base metals
209
350-400
Wood and wood products
385
600-700
Crude and petroleum products
528
800-900
Other **
680
1,100-1,200
Total Exports
1970
2,345
1980
4,100-4,800
*Estimated
**Includes food products, ores and concentrates, chemicals, fertilizers and other products.
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integration of Eastern Europe and its aid programs in the third world, thus limiting the expansion of its trade with the developed West. The Soviets, however, consider the latter to be essential because the West is the primary source of advanced technology and plant. Soviet trade is, however, characteristically in deficit with this area by several hundred million dollars annually. As a result, payments on the debt that the Soviets have incurred in buying more than they sell may be reaching a level that will require a limitation on the future growth of imports from this area. This in turn could affect future exports to the West by restricting the imports of technology and equipment needed to support and to increase shipments of fuels, ores, and other raw materials saleable in the West. As the USSR is forced more and more to exploit poorer deposits and reserves in remote areas, the acquisition of the most advanced equipment and processes will become imperative to keep prospecting and extractive costs at a minimum and to ensure a steady flow of such exports to the West.

Confronted with limited markets for its products in the developed West for a variety of reasons—few admittedly not of its own making—the USSR has augmented its import capacity in the developed West by making use of supplier credits. Since 1959, however, the bill has mounted steadily, with the result that debt service charges last year were equivalent to about 15 percent of hard-currency export earnings. The rate of growth of Soviet exports to the West, moreover, probably will decline to six or seven percent annually in the 1970s from the nine percent recorded in the 1960s. Thus, it is likely that the debt service ratio could easily exceed 20 percent, and possibly surpass 25 percent in 1975. This would result in an outstanding debt of approximately $3 billion. Although Soviet credit in the West is good and Moscow's control over the use of its foreign exchange is absolute, the USSR probably would consider a ratio of much over 20 percent excessive in that it would unduly limit Soviet flexibility in dealing with hard-currency areas.

Soviet exports to the developed West through 1980 will probably retain essentially the pattern that now prevails. Certain standbys, such as coal and coke as well as base metals, promise to grow more slowly than in the recent past while newer items—diamonds and natural gas, for example—are probably in for dynamic growth. Nevertheless, the growth in machinery and equipment, the category where technological advances are likely to be most evident, is estimated to do no more than match the over-all increase in Soviet exports to the West.

The net effect of these several trends is that the USSR's capacity to import from the developed West will increase at a significantly slower rate in the next few years than it has since the mid-1960s. With a debt service ratio moving toward a possible maximum and with merchandise exports relatively stagnant, the Soviets have few alternatives but to reduce imports. Gold sales as well as increased receipts from tourism and merchant shipping should add something, but certainly not enough to ease the bind significantly. In this situation, Moscow probably would prefer to maintain imports of technology and equipment at the expense of manufactured consumer goods, but recent regime policy favoring this category will make retrenchment here more difficult.

A further factor exacerbating the USSR's hard-currency trade position is the decision to import massive amounts of grain from the West despite a near-record harvest this year. Agreements reached earlier this month with two US companies for almost 3 million tons of grain raises total commitments to buy from hard-currency suppliers in fiscal 1971 to more than 8.5 million tons, valued at almost $500 million. On a calendar-year basis, these purchases will add $200 million this year and $300 million in 1972 to the USSR's foreign exchange requirements. Much of this grain or its equivalent is destined to be supplied to client states, but some will be used as livestock feed to support the regime's program to improve the diet of the Soviet consumer. This bow toward consumption in the food sector also suggests the probable increasing difficulty of any attempts to cut back on the import of consumer goods from the West.

The Future

Although the USSR's foreign trade is minor in terms of the over-all size and major characteristics of the Soviet economy, it remains vital in enforcing the Soviet hold on Eastern Europe and in acquiring advanced technology and plant from the West. With Eastern Europe, the Soviets probably can count on having essentially the final say in determining the size and conditions under which trade takes place. In dealing in Western markets, however, they must meet the competition, whether it be on product quality, credit terms, or any other facet needed for success in competitive commercial relationships. The USSR has been relatively successful up to now, but in the future the Soviets will be severely tasked to achieve from this trade what they can reasonably be expected to want from it. At the moment, their best prospects for accomplishing this appear to be a realistic effort to improve their export capability in manufactured products and an expansion of long-term credit deals, with repayment in kind. Recently, the USSR has sought large, long-term credits for Western equipment to develop natural resources that would be exported in repayment of the credits. Contracts with Western countries for large-diameter pipe on long-term credits and repayment in deliveries of natural gas are examples of this trend. The Soviets are proposing a number of such contracts to Western nations.

New Soviet efforts to attract foreign capital and know-how also may emerge from current discussions with an American economic delegation headed by Commerce Secretary Stans. Soviet Premier Kosygin welcomed the group's visit as an opportunity to increase economic relations with the US significantly. Although few details of the meetings are presently available, the Soviet leader listed the joint development of Soviet resources and large manufacturing projects as areas for cooperative efforts using US equipment and technical skills. [redacted] 25X1

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