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MEMORANDUM FOR: THE RECORD

The attached memorandum was requested by Gordon Streep, Deputy Assistant to the Undersecretary of State for International Organization Affairs, for use during the UNCTAD VI meetings in early June. The memorandum was prepared by [redacted] 25X1
Trade Branch/Soviet Economy Division, and transmitted to State through OGI/ECD/TW with other materials for the UNCTAD meetings. 25X1

[redacted]

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Central Intelligence Agency

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24 May 1983

UNCTAD Report on Socialist Trade: A Critique

The Offices of Soviet and European Analysis have reviewed the February UNCTAD VI report entitled "Trade Relations Among Countries Having Different Economic and Social Systems and All Trade Flows Resulting Therefrom". The paper, which was prepared by a Soviet official on the staff of the UNCTAD Secretariat, is little more than a restatement of standard Soviet rhetoric on the subject. Our main concern is that the report overstates the significance of the Soviet Union and Eastern Europe in international trade, especially with regard to economic relations with the Less Developed Countries. This memorandum highlights areas where 1) analytically weak arguments occur and 2) Soviet and East European trade relations could be given a more balanced perspective. [redacted] 25X1

Soviet Foreign Trade Activity

Although the UNCTAD report makes no reference to the links between foreign trade and the domestic economy, the foreign trade sector has traditionally been viewed by Soviet economic planners as a residual element in the domestic economy. The level and composition of imports are determined by internal requirements needed to meet economic goals that cannot be filled from domestic production. Exports in turn are driven primarily by the need to earn foreign exchange to pay for imports. During the 1970s, Soviet planners looked increasingly to trade with non-Socialist countries to improve industrial productivity and to offset domestic shortfalls in agriculture and the steel industry. Consequently, trade with the non-Socialist countries did indeed grow rapidly during the 1970s, with imports and exports each rising from $4 billion in 1970 to $36 billion in 1981. [redacted] 25X1

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This memorandum was prepared by [redacted] Soviet Trade Branch, Office of Soviet Analysis with a contribution from the Office of European Analysis. Any comments should be addressed to Chief of the Soviet Economy Division [redacted] 25X1

Institutional Arrangements

Many of the developments that are praised in the UNCTAD report (establishment of mixed companies, participation in joint ventures, and use of compensation and industrial cooperation agreements) as reflecting qualitative changes in East-West trade are really only institutional adjustments to permit the general expansion of Soviet trade. These practices are rather narrowly focused on marketing Soviet products and services. Moreover, many of these activities are common trade practices among firms in the West. 25X1

The report also emphasizes the key role played by long term trade and economic cooperation agreements in expanding trade with non-Socialist countries. While these types of agreements undoubtedly serve a useful political purpose, they carry little economic weight. In economic terms, most of these agreements are nonbinding and serve more to outline the signatories' desire to expand trade relations and to suggest potential areas for expansion than to plan actual trade flows. Moscow also puts stock in such long term arrangements because they help Soviet planners in establishing a framework from which annual and long-term plans can be developed. These kinds of agreements have little if any practical value for market economies where national planning is not emphasized, although for some LDCs which engage in national planning, cooperation agreements may be helpful. In any event, a large expansion of trade among non-Socialist countries has occurred without such a profusion of general agreements. 25X1

Trade Trends

Trade with the Developed West has been more important to the Soviet Union than to its Western partners, a point which is ignored by the Soviet author. Although basically self-sufficient, the USSR does rely on imports, especially from the West, to relieve critical shortages, spur technological progress, and generally improve Soviet economic performance. On the other hand, the "anti-cyclical and stabilizing macro-economic impact" of East-West trade on the developed countries, referred to in the UNCTAD study, has been small. Trade with the Socialist countries accounts for less than 5 percent of total OECD trade, and trade with the USSR accounts for less than 2 percent. Moreover, the share of OECD exports going to Communist countries has declined since 1975. Similarly, trade with the Soviet Union has not played an important role in the trade and economies of most LDCs, with the exception of a few countries such as Afghanistan, India, and Argentina. 25X1

The extent of Soviet economic relations with the LDCs has also been exaggerated in the UNCTAD report. Soviet trade with the LDCs has been concentrated on a select group of countries and commodities which can provide the USSR with political, strategic, and economic benefits. Moreover, the share of the non-Communist

LDCs in total Soviet trade, as shown in table 3 of the UNCTAD report, appears much larger than it actually is because the author includes the Communist LDCs (Cuba, Vietnam, Laos, Kampuchea, China, Mongolia, and North Korea) in his data on the trade of developing countries. These countries are generally defined by the Soviets as Socialist countries. In the context of the report these countries, which account for 35 percent of the $18.5 billion cited in the report, should have been excluded.[1] The actual share of the non-Communist LDCs in Soviet trade is small, only 15 percent of the total. 25X1

Soviet trade with the non-Communist LDCs remains confined to relatively few countries, despite its rapid growth during the 1970s (see table 1). Although the Soviet Union in its official trade statistics has reported trade with up to 67 developing countries, more than 80 percent of this trade has been with no more than 15 of these countries. Trade has become more concentrated since the mid-1970s. Soviet exports during this period to India and Iraq soared and by 1981, accounted for 37 percent of total exports to the LDCs. As a result of the rapidly growing trade with India combined with sharp increases in agricultural imports from Argentina, the share of these two countries in Soviet imports from the LDCs rose to 50 percent in 1981. Except for the rising agricultural trade with South America, Moscow has focused its trade expansion on the strategically important countries in the Middle East, Southwest Asia and North Africa. 25X1

Contrary to statements made in the UNCTAD study, the Soviet market has not offered most LDCs the opportunity to develop non-traditional exports (see table 2). Although Soviet imports more than doubled between 1975 and 1981, most of the growth was a consequence of rapidly rising imports of agricultural imports as Moscow compensated for agricultural production shortfalls through increased imports of grain, sugar, meat, and other commodities. With the exception of some of Moscow's largest trading partners, imports from individual LDCs are concentrated on one or two commodities. Although the share of manufactured commodities, including a small amount of machinery, in Soviet imports from the LDCs is comparable with OECD trade with these countries, these imports come almost entirely from India, Syria, and Egypt. 25X1

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[1] Although the total trade number given in table 3 of the UNCTAD report is consistent with data given in the Soviet Foreign Trade Handbook, the breakdown into country groupings cannot be duplicated, especially on Soviet imports. Even with the Communist LDCs included, the values given in the UNCTAD report exceed Soviet import data by $1.3 billion in 1980 and $2.6 billion in 1981. In contrast, the export data differ by only $188 million in 1980 and not at all in 1981. 25X1

Moscow in particular has not viewed the Newly Industrialized Countries (NICs) as a potential source for a wide-range of manufactured commodities, especially for machinery and consumer goods. Although Soviet agreements to purchase manufactured commodities from a portion of its export revenues, noted in the UNCTAD report, have probably been fulfilled, their impact on the overall level of such purchases has been minimal. Argentina and Brazil are both unhappy with Soviet unwillingness to significantly expand such purchases. (This attitude could change, however, if the USSR decides to begin looking for alternate sources of Western equipment as a result of the deterioration of East-West relations and US-imposed restrictions on the export of certain types of equipment.) 25X1

Economic and Military Links

Soviet export strategy to the non-Communist LDCs is designed to ensure maximum gains to the USSR at the least cost. The limited commodity structure of the trade also reflects Moscow's inability to supply many of the wide-ranging commodities required by the LDCs. Soviet exports are concentrated among those items with few other available markets outside of the socialist camp. Exports of machinery and transport equipment--for both the military and civilian sectors of its LDC partners--account for as much as 75 percent of total exports to the Third World. (Military exports alone could account for as much as 65 percent of the total.) Exports of raw materials--especially of fuels--which are easily marketed in the Developed West are mainly reserved for Moscow's most important LDC partners (see table 3). 25X1

The Soviet economic aid program is designed to partially support Moscow's exports of machinery and equipment. While this program is still considered to be an instrument for expanding Soviet influence in the Third World, Soviet officials constantly emphasize that economic aid projects should be mutually advantageous. Thus the Soviets have been focusing on projects and countries that promise the greatest returns, for example in raw materials needed by the Soviet economy. This has meant a growth of Soviet commercial ventures abroad and broader long-range programs to dovetail with Moscow's economic plans. Unlike most Western aid, Soviet economic aid is largely tied to the exports of Soviet machinery and equipment. In addition, credits extended in recent years have become less concessionary than traditional development aid, which allows 12-year payments at 2.5- to 3-percent interest. Moscow has also increased its participation in projects, such as the development of Iraqi oil fields, which earn substantial amounts of hard currency through the sale of Soviet machinery and technical services. 25X1

High Aid Number?

The UNCTAD report states that net Soviet economic assistance actually disbursed to developing countries between 1976 and 1980 equaled 30 billion rubles (about $44 billion). While we cannot confirm such a high level of aid without more detailed information about the composition of the estimates, we do believe that they are overly generous. Information available to us indicates that Soviet economic assistance to both Communist and non-Communist developing countries in that period was in the 14-17 billion ruble range ($20-25 billion) on a gross basis, which would exclude Soviet receipts from interest payments and debt repayment. We do not have a detailed estimate of the level of debt servicing, but the net assistance figure estimates that only a small part went to non-Communist LDCs over the period. Most of this aid went to Cuba and Vietnam, partly in the form of price subsidies. 25X1

The difference between the Soviet's stated net aid figure of 30 billion rubles and our net estimate of 14 billion rubles is probably in part the cost of the services of academics and technicians. Even though we believe that many of these costs are repayable in hard currency on a current account basis, the Soviets probably include them in their estimates because they feel that they bear much of the cost of these services. The services of these people could add an additional 3 billion rubles ($5 billion) a year in aid, or 15 billion rubles ($21 billion) over the five year period. We estimate that 40-45,000 Soviet technicians were in Communist and non-Communist LDCs in 1981. 25X1

East European Role

The UNCTAD report makes virtually no distinction between the USSR and East Europe even though in many respects trends in their trade relations and trade policies differ substantially. As relatively small economies, the East European countries are more dependent on foreign trade than is the USSR. Moreover, during the 1970s, many of the East European countries implemented even more ambitious programs to improve domestic production through imports from the Developed West than did the Soviet Union. Their inability to transform imports from the West into export performance has been in no small measure responsible for the external financing problems that have surfaced in Eastern Europe in recent years. Rather than analyzing the internal factors responsible for poor export performance, the UNCTAD report puts a greater emphasis on the negative impact of Western trade restrictions on the development of the Socialist economies. As in the USSR, the general East European response to recent financial problems has been to cut imports, an action which perhaps calls into question the statements in the UNCTAD report about the continuing expansion of trade. As with the USSR, this point is missed by the author. The report also excludes trade trends in 1982, a year of major trade adjustments. 25X1

The principal purpose of East European (like Soviet) economic aid and credits is to promote exports of machinery and equipment. The East Europeans also have actively marketed military-related equipment and economic and military technical services. Both the military and economic aid programs of the East European countries complement the Soviet effort. The USSR, without assuming formal control over its partners' programs, 25X1 strongly influences the selection of targets and the timing of commitments.

Optimistic Prospects

The author of the UNCTAD study ends on a decidedly upbeat note in the discussion of the prospects for further trade between the Socialist and the non-Socialist countries. This optimistic stance, however, seems unwarranted. Recent trends indicate that the rate of growth in East-West trade relations will continue to slow considerably from the pace achieved in the 1970s. In particular, the windfall profits from rapidly rising oil prices that allowed the USSR to expand non-Socialist trade in the 1970s are unlikely to be repeated during the 1980s. With the expansion of earnings from its major export item thus constrained, Moscow will find it difficult to continue to expand imports. Foreign exchange shortages of the past two years already have pushed the USSR and Eastern Europe to reduce the volume of trade with the rest of the world, primarily through absolute reductions in imports. In the main, these trade cuts were self-imposed, 25X1 reflecting the need for external financial restraint rather than political restriction.

The UNCTAD report also ignores the fact that Soviet planners are anticipating slow growth in trade with the non-Socialist countries during the 1981-85 period. Although the current five-year plan does call for an annual average growth rate in foreign trade of 4.1 percent, as stated in the UNCTAD report, much of this expansion is expected to come from the USSR's Socialist partners. According to a November 1981 statement by Baybakov, the deputy chairman of the State Planning Committee, Soviet trade with other socialist countries will grow by 5.5 percent per annum. This implies a growth rate for trade with non-Socialist 25X1 countries of only 2.3 percent per year.

In any event, the UNCTAD report states that further increases in Soviet and East European trade will depend on export expansion and an improvement in commodity structure. Only fleeting reference is made of the need to improve the quality of their exports. We believe that the issue of quality of manufactured exports will be a major stumbling block to any substantial expansion of trade. For the most part, manufactured goods are of poor quality and are non-competitive in Western markets. Our analysis indicates that non-energy exports for the USSR will grow in real terms by only 1 to 2 percent per year through 1990. Earnings from energy exports will be constrained by slowly rising or perhaps even declining oil prices, domestic production constraints, and the need to supply domestic and socialist customers. Increases in natural gas exports beyond those currently contracted for in connection with the Siberia-to-Western Europe pipeline will depend on West European demand, which is currently weak. Prospects for the expansion of East-West trade are, therefore, far from rosy.

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Table 1

USSR: Trade with Selected Less Developed Countries in 1981

(Million US $)

	Exports	Imports
Communist LDCs	6,566	3,914
of which:		
Cuba	3,829	2,853
Vietnam	1,007	232
Mongolia	1,094	346
North Korea	388	348
Laos	50	1
China	115	131
Kampuchea	83	3
Non-Communist LDCs[1]	11,525	10,630
of which:		
India	1,479	1,854
Iraq	1,259	5[2]
Argentina	43	3,297
Brazil	23	742
Iran	569	653
Afghanistan	471	440
Libya	264	502
Syria	387	350
Egypt	339	372
Algeria	157	117
Morocco	176	187
Ethiopia	189	28
Angola	149	11
Nigeria	218	27
Pakistan	106	67
Ghana	negl.	54
Malaysia	21	243
Philippines	1	218
Thailand	11	434
Ivory Coast	1	142
Residual[3]	4,938	209

[1] OECD definition of non-Communist LDCs which includes: 1) all countries of Africa except the Republic of South Africa; 2) all countries of East Asia except Hong Kong and Japan; 3) all countries of Latin America except Cuba; and 4) all countries in the Middle East and South Asia, except Israel, Kampuchea, Laos, Vietnam and Turkey.

[2] Imports from Iraq have fallen off sharply since the onset of the Iran-Iraq war in 1980 due to a cessation of oil deliveries. Imports peaked in 1978 at $603 million.

[3] The difference between total reported exports to the developing countries and Soviet reporting on exports to individual LDCs.

Source: Soviet foreign trade statistics.

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Table 2

USSR: Imports from Non-Communist Less Developed Countries (f.o.b.)

(Millions US $)

	1970	1975	1976	1977	1978	1979	1980	1981
Total	1,225	4,076	3,618	3,920	3,995	4,702	7,507	10,450
of which								
Agricultural products	883	2,366	2,054	2,124	1,942	2,322	4,573	6,665
Petroleum and petroleum products	25	552	535	538[1]	749[1]	925[1]	831[1]	1,103[1]
Natural gas	22	253	234	260[2]	265[2]	178[2]	254[2]	269
Other raw materials	28	140	108	144	180	195	206	226
Manufactured goods	209	550	492	534	523	577	897	1,208
of which								
Textiles	113	332	299	349	314	343	488	590
Machinery and equipment	3	26	27	32	62	65	65	121
Other	93	192	166	153	142	163	344	497
Other commodities	58	215	195	320	336	505	746	979

[1] Estimated from Soviet imports of unspecified category 2 from Iraq, Libya and Iran (in 1981 only).

[2] Iranian natural gas exports were estimated from the difference between total reported Soviet imports from Iran and imports specified by type.

Source: Soviet foreign trade statistics

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Table 3

USSR: Exports to Non-Communist Less Developed Countries (f.o.b.)

(Million US $)

	1970	1975	1976	1977	1978	1979	1980	1981
Total	1,976	4,550	4,878	7,121	8,267	9,186	10,096	11,525
of which								
Military[1]	1,048	2,521	2,942	4,810	5,860	6,126	6,176	7,440
Civilian	928	2,029	1,936	2,311	2,407	3,060	3,920	4,085
of which								
Machinery and equipment	529	884	979	1,133	1,349	1,574	1,617	1,481
Fuels	67	468	481	653	571	965	1,490	1,689
Petroleum and petroleum products	60	422	446	615	543	939	1,455	1,649
Ferrous metals	94	104	49	50	44	54	92	65
Chemicals	16	118	42	71	78	71	182	287
Wood and wood products	59	162	153	169	139	143	239	237
Agricultural commodities	94	115	75	74	72	95	114	157
Consumer goods	36	86	87	96	97	105	96	98
Other	33	92	70	65	57	53	90	71

[1] This item was estimated from the reported export residual in published Soviet/LDC trade figures (i.e., the difference between Soviet reported exports to the LDCs and Soviet reporting on exports to individual LDCs), unspecified exports to individual LDCs, and specific commodity exports which are assumed to be entirely or partially for military use.

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