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USSR–Eastern Europe: Will Moscow Keep Up Trade Pressures?

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An Intelligence Assessment

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EUR 86-10041
November 1986

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USSR–Eastern Europe: Will Moscow Keep Up Trade Pressures? [redacted]

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An Intelligence Assessment

This paper was prepared by [redacted] Office of European Analysis. Comments and queries are welcome and may be directed to the Chief, East European Division, EURA [redacted]

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USSR–Eastern Europe: Will Moscow Keep Up Trade Pressures?

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Key Judgments

Information available as of 1 October 1986 was used in this report.

Moscow has moved forcefully during the 1980s to increase the benefits from its economic relationship with Eastern Europe. The East Europeans have responded to rising prices of Soviet exports and Moscow's demands by delivering substantially more in return for roughly the same level of Soviet exports. The Soviets expect Eastern Europe during the period 1986-90 to provide still more and better quality goods that are important in Gorbachev's modernization plans for the Soviet economy. Improved East European terms of trade as a result of falling Soviet oil prices, however, will give the region better grounds for resisting some of Moscow's demands. Gorbachev's approach to the trade dilemma is likely to reveal how tough he is prepared to be in dealing with Eastern Europe. 25X1

Surging oil prices in the 1970s provided Moscow with a lever to squeeze a substantial—and generally increasing— net flow of resources from Eastern Europe. Moscow changed the pricing mechanism of the Council for Mutual Economic Assistance in order to capture these windfall gains but did not press its full advantage because:

- The Soviets permitted Eastern Europe to run substantial trade deficits to cushion the impact of the rising prices and continued to accept shoddy East European goods in payment.
- While Soviet oil prices rose sharply, they still lagged considerably behind prices on world markets—an implicit subsidy from the USSR to Eastern Europe.

Even with these concessions, Eastern Europe had to export a growing volume of goods to the USSR while growth of Soviet deliveries slowed during the last half of the 1970s. 25X1

Despite the generally favorable trade trends, the Soviets expressed growing irritation over economic relations with Eastern Europe in the early 1980s. Slower Soviet economic growth made Moscow less willing to tolerate Eastern Europe's persistent trade deficits and failure to meet export commitments, especially higher standards for quality. Eastern Europe responded by accelerating still further the growth of its exports. In pressing its demands, Moscow took little account of Eastern Europe's hard currency debt problems and did not fill the gap caused by the abrupt reduction in Eastern Europe's imports from the West. The degree of pressure varied, however, with stronger countries such as East Germany bearing more of the burden than beleaguered Poland. 25X1

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Trade protocols for 1986-90 indicate that Moscow probably is pushing most countries to repay their debts to the USSR by having them run nominal trade surpluses. Moscow also is emphasizing quality in order to halt the East European practice of shipping topline products to the West and shoddy goods to the USSR. Even so, the protocols indicate some easing of Soviet economic pressure. Moscow agreed to maintain oil deliveries, and the low rate of trade growth implies a more moderate expansion of East European exports. 25X1

We believe the recent fall in world oil prices will soon reverse the creditor-debtor roles in the Soviet–East European economic relationship and complicate Gorbachev's efforts to extract more resources from his allies because:

- Lower energy prices will result in large Soviet deficits after 1986, enabling Eastern Europe to repay quickly its estimated 16-billion-ruble trade debt to the USSR.
- If adjustments to current trade plans are not made, the Soviets could be some 20 to 30 billion rubles in debt to their allies by 1990.

The East Europeans may balk at providing the level of resources called for under the current protocols as the fall in oil prices gives them economic grounds to resist Soviet demands. 25X1

Moscow will have to decide whether the value of East European inputs is worth the trade disputes with Eastern Europe that are likely. Some responses could include:

- The Soviets could adhere to their economic plans for Eastern Europe by running up large debts or by changing the CEMA price structure to avoid indebtedness. East European leaders, however, are sure to resist granting large trade credits to Moscow or negotiating away favorable price developments.

- Moscow may try to narrow its trade gap by increasing exports to the region—primarily of manufactured goods and some raw materials—above previously planned levels. Gorbachev's already heavy demands on Soviet industry, however, will make it difficult for the USSR to generate enough exports to erase the deficits.

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- Moscow could also consider accepting slower growth in imports from Eastern Europe, although this would be its least preferred option, given the important role of East European inputs.

Moscow would like to pursue a course that leaves planned trade flows intact and maximizes Eastern Europe's contributions to meeting Soviet economic goals. The Soviets, however, may have to resort to a combination of options entailing both pressure and concessions. Moscow's ultimate decision will depend on how well the Soviet economy responds to Gorbachev's initiatives and on the economic performance and political stability of East European countries. 25X1

Western policymakers probably can do little to affect Soviet and East European responses to impending trade conflicts. Nonetheless, changes in Soviet–East European trade relations that will result from these choices may provide the West with opportunities to influence East European regimes. An unyielding Soviet stance would be deeply resented by the East Europeans, who would view it as economic exploitation. On the other hand, an easing of Soviet requirements would provide additional resources that some regimes might use to expand trade with the West. In either case, some countries such as East Germany and Hungary could become more willing to meet Western conditions for lowering trade barriers. To strengthen ties to the West, however, would require tough political decisions by the East European regimes—particularly in the case of continued Soviet economic pressure. 25X1

Table A-1
Soviet–East European Quantity Indexes

1977=100

	Official Soviet Index for Trade With CEMA [a]			Hungarian Price-Deflated Index (including residual) [b]			Hungarian Price-Deflated Index (excluding residual) [b]		
	Eastern Europe			Eastern Europe			Eastern Europe		
	Imports	Exports	Terms of Trade	Imports	Exports	Terms of Trade	Imports	Exports	Terms of Trade
1977	100	100	100	100	100	100	100	100	100
1978	105	116	91	102	115	89	100	117	85
1979	108	114	95	105	116	91	102	118	86
1980	112	115	97	107	117	92	106	116	91
1981	112	117	96	106	119	89	103	116	88
1982	107	134	80	104	131	79	101	129	78
1983	107	141	76	103	139	74	98	140	70
1984	111	150	74	108	148	72	103	151	68

[a] Source: Soviet foreign trade statistics; based on constant 1975 prices.
[b] CIA estimates based on Soviet foreign trade statistics and Hungarian price data taken from Hungarian statistical monthlies; based on constant 1977 prices.

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Hungarian price-deflated series for several other reasons. The clearest difference is that Soviet indexes include trade with Vietnam, Mongolia, and Cuba—comprising 15 percent of Soviet exports and 11 percent of imports in CEMA trade. Soviet indexes are based on constant 1975 prices, whereas our estimates use 1970 and 1977 prices as the base. Another reason is that the Soviet quantity indexes are Laspeyres indexes—implying that they are constructed from Paasche price indexes—whereas the Hungarian data are based on Fisher price indexes. 25X1

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Appendixes

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USSR–Eastern Europe: Will Moscow Keep Up Trade Pressures? 25X1

Introduction

Dramatic swings in world prices for energy and raw materials have buffeted Soviet–East European [1] trade during the past decade. Moscow's trade position was strengthened greatly by the runup in world energy prices during the 1970s. Although the USSR made some concessions to help Eastern Europe adjust, it took advantage of its windfall gains to step up the net flow of goods from the region. The recent dramatic drop in world oil prices, however, threatens to turn the tables on Moscow in the coming years and put Eastern Europe in a stronger position to resist Soviet demands for more exports.

This assessment reviews the USSR's past success in extracting a growing flow of resources from Eastern Europe and examines the outlook for economic relations in light of declining energy prices. The analysis focuses on the dilemma posed to the Soviet leadership by the weakening of its oil "lever" on Eastern Europe. The analysis is based on data both in nominal (current price) and in real (constant price) terms in order to reveal the influence of price movements on the physical quantities of goods traded.[2]

Oil Prices Tilt the Balance

The quadrupling of world oil prices in 1973 provided the lever for Moscow to extract more goods from Eastern Europe. Following the Organization of Petroleum Exporting Countries (OPEC) price shock, the Soviets modified the CEMA pricing mechanism in order to benefit from the rising oil prices. The new mechanism, using average world oil prices in previous years as a base, resulted in CEMA prices still lagging considerably behind world prices. But the price of Soviet oil sold to Eastern Europe nearly doubled in 1975 and more than doubled again between 1975 and 1980. Eastern Europe's oil bill in 1980 was four times more than in 1974, although the quantity of deliveries had increased by only a third. 25X1

The rise in Soviet oil prices reversed the slightly favorable trend in terms of trade—the ratio of the change in export prices to the change in import prices—that Eastern Europe had enjoyed with the Soviet Union throughout the 1960s. Beginning in the mid-1970s, prices of Soviet fuel and energy—the bulk of Soviet exports—rose much faster than did the prices of Eastern Europe's exports of manufactured goods and agricultural products. Eastern Europe's terms of trade declined almost 30 percent between 1973 and 1980, according to Hungarian statistics, and fell nearly 20 percent more from 1980 to 1983. This sharp decline, in effect, gave the USSR a claim to about 40 percent more of Eastern Europe's output in return for the same amount of Soviet goods. 25X1

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Temporary Breathing Room

Probably in recognition that the East European economies could not adjust immediately to the higher prices, the Soviets refrained for a time from pressing their full advantage. The most visible concession was allowing large East European trade deficits—a departure from CEMA's longstanding principle of balanced trade.[3] The region's nominal deficit rose from 105 million rubles in 1974 to a peak of 3.2 billion rubles in 1981 and resulted in Eastern Europe's accumulating a substantial debt to the USSR.[4] Romania, the only

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[1] In this paper Eastern Europe refers to the six East European members of the Council for Mutual Economic Assistance (CEMA): Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Romania. "West" refers to all nonsocialist countries.

[2] Estimates for the volume of Eastern Europe's trade with the USSR and nonsocialist countries were derived by using Hungarian price series to deflate nominal trade figures reported by the Soviets and East Europeans. See appendix A for methodological details.

[3] According to Soviet trade data, from 1960 to 1974 Eastern Europe had a cumulative surplus with the USSR of only 286 million rubles. 25X1

[4] In this paper "ruble" refers to the "transferable ruble," which the USSR uses in measuring foreign trade flows. The transferable ruble is distinct from the Soviet domestic ruble. In 1985 the transferable ruble-dollar exchange rate was 0.8389. 25X1

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Table B-1
East European Oil Trade [a]

Million metric tons

	1980	1981	1982	1983	1984	1985
Imports From the USSR						
Total	**79.8**	**80.1**	**71.8**	**69.8**	**71.5**	**70.6**
Bulgaria	14.7	14.7	13.4	13.4	13.4	12.0
Czechoslovakia	19.2	18.9	17.1	17.1	16.9	16.9
East Germany	19.0	19.0	17.7	17.1	17.1	17.1
Hungary	9.3	8.8	8.1	7.1	7.8	7.6
Poland	16.1	16.0	15.1	14.9	15.2	15.0
Romania	1.5	2.7	0.4	0.2	1.1	2.0
Imports from other sources						
Total	**22.6**	**16.2**	**18.9**	**24.6**	**25.8**	**27.7**
Bulgaria	0.7	1.0	1.7	2.0	2.3	3.4
Czechoslovakia	0.5	0.5	0.6	0.6	0.8	0.9
East Germany	2.9	3.7	4.0	5.6	6.2	6.8
Hungary	0.8	0.5	1.9	2.7	2.2	2.1
Poland	4.3	1.3	1.1	2.4	1.7	1.1
Romania	14.5	10.2	10.6	11.3	12.6	13.4
East European oil exports						
Total	**20.6**	**19.5**	**18.9**	**25.4**	**26.4**	**24.4**
Bulgaria	3.8	3.9	3.6	3.6	2.8	2.1
Czechoslovakia	1.7	1.2	1.4	1.6	1.7	1.6
East Germany	3.0	4.1	4.3	5.8	6.7	7.7
Hungary	1.7	1.4	2.5	3.9	3.9	2.0
Poland	1.6	0.8	0.6	1.4	0.4	0.6
Romania	8.8	8.1	6.5	9.1	10.9	10.4

[a] Source: CIA estimates, East European trade statistics, and PlanEcon estimates.

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stock declined. Poland's imports expanded by 20 percent in 1984, but they were still only a little more than half of the 1980 figure.

- East Germany's machinery imports, after declining by 15 percent during 1979-82, plummeted by almost 20 percent in 1983 with cuts in purchases of machinery for chemical and light industries and transportation equipment. Imports rose nearly 13 percent in 1984 with increased purchases of power and electrical equipment, road-building equipment, tractors, and passenger cars.

- Hungary and Romania increased imports in 1982 following earlier declines but registered sharp downturns in 1983 and 1984. Hungary received fewer imports of mining equipment, oil drilling equipment, hoisting machinery, tractors, and shipping and airline equipment. Romania cut purchases of mining equipment, hoisting machines, light industrial equipment, agricultural machinery, and shipping equipment.

- Bulgaria and Czechoslovakia boosted imports over 1982-84 following declines during 1979-81. 25X1

Figure 1
Price Trends in Soviet-East European Trade, 1970-84

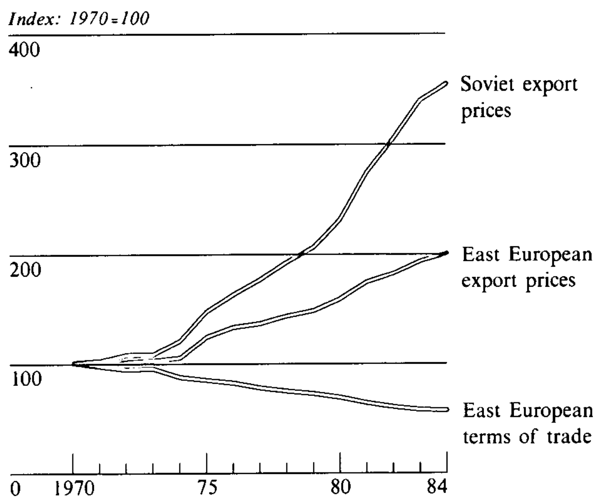

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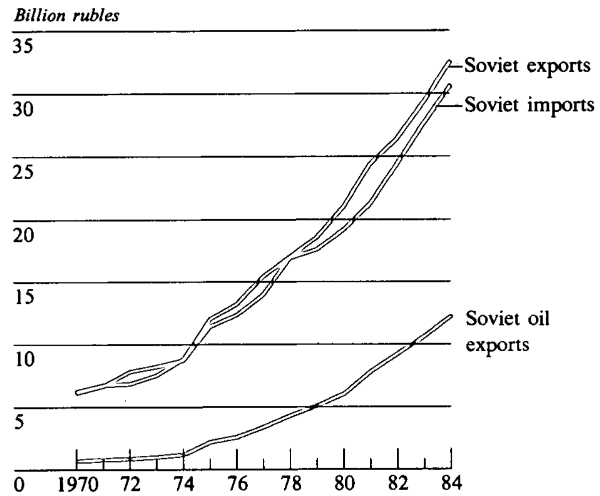
Figure 2
Soviet-East European Trade, 1970-84



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officials maintained that the cost of extracting 1 metric ton of oil tripled over the past 10 years as resource development shifted into less accessible eastern regions of the USSR. Moscow's growing reluctance to supply oil to Eastern Europe at a discount may also have been nourished by the longstanding realization that many of these countries enjoy higher standards of living than the USSR. The Soviets complained more about Eastern Europe's failure to meet export commitments and about the quality of East European deliveries.

In the early 1980s the Soviets moved forcefully to redress their grievances. Despite earlier assurances that deliveries would be maintained at the 1980 level during 1981-85, in 1982 Moscow abruptly cut oil deliveries by 10 percent to Czechoslovakia, East Germany, Hungary, and possibly Bulgaria in order to increase hard currency sales. At the CEMA Council meeting in October 1983, then Soviet Premier Tikhonov announced a tougher Soviet policy in trade with Eastern Europe including the following points:

- Moscow would no longer tolerate large East European trade deficits.
- Eastern Europe would have to export better quality machinery, food, and consumer goods to the Soviets in order to continue receiving energy and raw materials.
- Eastern Europe would have to shoulder the costs of Soviet energy and raw material production by investing in resource development projects in the Soviet Union.

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The Soviets repeated these conditions in June 1984 when East European party leaders met in Moscow for the first CEMA economic summit in 15 years.

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Eastern Europe's Ruble Debt

Information on Eastern Europe's debt to the Soviet Union is tightly held by most East European countries, making the magnitude and, thereby, the burden of the debt difficult to determine. One method of estimating the debt is to sum the bilateral trade deficits between the USSR and Eastern Europe. Because of the nonconvertibility of CEMA currencies, deficits in bilateral trade usually must be made up by the deficit country running future surpluses. Up until 1974, when rising energy costs began to inflate the value of Soviet exports, intra-CEMA trade was generally balanced. However, with most East European countries running annual deficits since the mid-1970s, the Soviets have had to extend long-term trade credits in order to cover the gaps. Between 1974 and 1985, trade deficits totalled 15.8 billion rubles.

Merely adding trade deficits in order to estimate Eastern Europe's debt, however, overlooks service transactions that affect the balance of payments. We have several indications that the East Europeans run significant surpluses on these invisible items that partially offset the trade deficits and reduce the debt to the USSR accordingly. They include the following:

- *The Czechoslovak press reports that the Soviets ship up to 3 billion cubic meters of gas a year to Czechoslovakia, worth 350 million rubles at CEMA prices, as transit fees for conveying Soviet gas to Western Europe. These gas deliveries do not require offsetting Czechoslovak exports and, when reported in the trade account, cause the Czechoslovak deficit to appear larger than it is.*

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According to press reports, the Polish debt to the USSR at the end of 1984 stood at 3.5 billion rubles, well below the 5.2 billion rubles the Poles accumulated in trade deficits with the USSR between 1974 and 1984.

- *The 740-million-ruble deficit in nonconvertible currency trade that Hungary ran in 1983 fell to 428 million rubles after service payments were included, according to official Hungarian statistics.* 25X1

The pattern of nontrade surpluses by the East Europeans suggests that the debt to the USSR is considerably less than the 16 billion rubles of accumulated trade deficits. While the trade deficits may overstate its magnitude, Eastern Europe's debt to the Soviets is probably at least 10 billion rubles. 25X1 25X1

The following is a tabulation of Eastern Europe's accumulated deficits (in millions of rubles) in trade with the Soviets for the period 1974-85: [a]

Total	*15,760.3*
Bulgaria	*3,583.3*
Czechoslovakia	*2,541.4*
East Germany	*3,931.6*
Hungary	*318.7*
Poland	*6,162.4*
Romania [b]	*−777.1*

[a] *Source: Soviet Trade Statistics.*
[b] *Romania ran a trade surplus with the USSR over this period.*

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In response, Eastern Europe has undertaken a substantial adjustment of its trade with the USSR. The region cut its trade deficit with the Soviets from 3.2 billion rubles in 1981 to 1.1 billion rubles in 1985. All countries except Poland reduced their trade deficits sharply or moved into surplus.

Continuing price increases for Soviet oil forced the East Europeans to export more to close the gap. Although OPEC oil prices peaked in 1981, CEMA prices—locked in by the pricing mechanism—have

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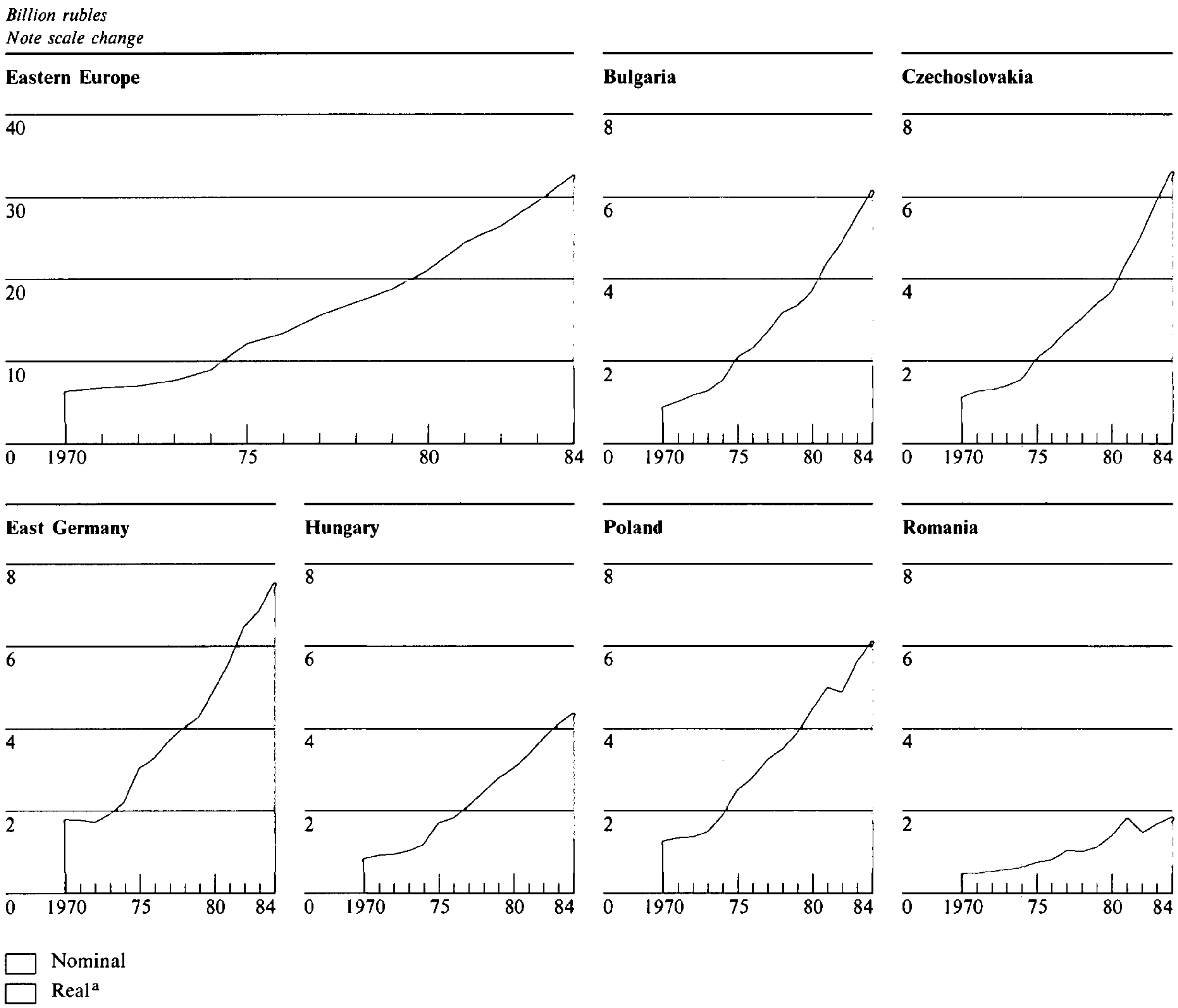
Figure 3
East European Imports From the USSR, 1970-84



[a]Real imports in 1970 rubles.

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continued to rise to reflect the 1979-80 OPEC price increase and now are far above world levels.[5]

Real Trade: Eastern Europe Gives More

Our estimates of real trade—the physical volume of exchanges derived by removing price effects from trade data reported in nominal terms—show that the East Europeans made substantial trade adjustments even before the Soviet pressure in the early 1980s to balance trade. The estimates of real-trade flows indicate that the adjustment in trade started almost immediately after Soviet oil prices jumped as Eastern Europe shipped a steadily increasingly flow of goods to the USSR. Net real exports from Eastern Europe mounted rapidly after 1974, totaling 11 billion rubles in 1970 prices during 1976 to 80 and nearly 20 billion rubles between 1981 and 85.[6] If the Soviets had not allowed Eastern Europe to run *nominal* trade deficits during these years, the flow of *real* goods to the USSR would have been even higher.

The volume of Eastern Europe's exports to the USSR increased by 9 percent annually during the early 1970s but slowed down in 1979-81 as a result of economic difficulties—declining economic growth, worsening hard currency financial problems, and economic dislocations arising from political turmoil in Poland. We believe Eastern Europe's lackluster export performance during these years was an important factor leading to Moscow's economic crackdown on the region. Eastern Europe sharply expanded the volume of exports during 1982-84. Machinery and equipment deliveries accounted for 70 percent of the region's gains in exports to the USSR. All East European countries stepped up machinery deliveries, and virtually every machinery category showed rapid growth.

In contrast, the growth rate of Soviet real exports slowed over this period. Export volume grew nearly 6 percent in the first half of the 1970s and then fell to a 2-percent growth in 1976-80. There has been virtually no increase in the 1980s. Moscow's unwillingness to maintain oil deliveries and a sharp drop in Soviet machinery exports accounted for much of the stagnation. Increases in gas and electricity exports to the region were offset by the reduction in oil deliveries from 80 million to 72 million tons beginning in 1982. Machinery and equipment exports plummeted by more than 20 percent during 1981-83.[7]

Country Comparisons

Every East European country increased the net resource flow to the USSR over the past 10 years, although some countries responded more than others in adjusting to rising Soviet prices. The structure of each country's trade with the USSR played the major role in determining the size of the adjustment, but Soviet trade policy—based on economic and political factors—also had an impact. In particular, Moscow tolerated Warsaw's failure to meet trade commitments in the early 1980s when political and economic upheavals threatened Poland's stability (see table 1).

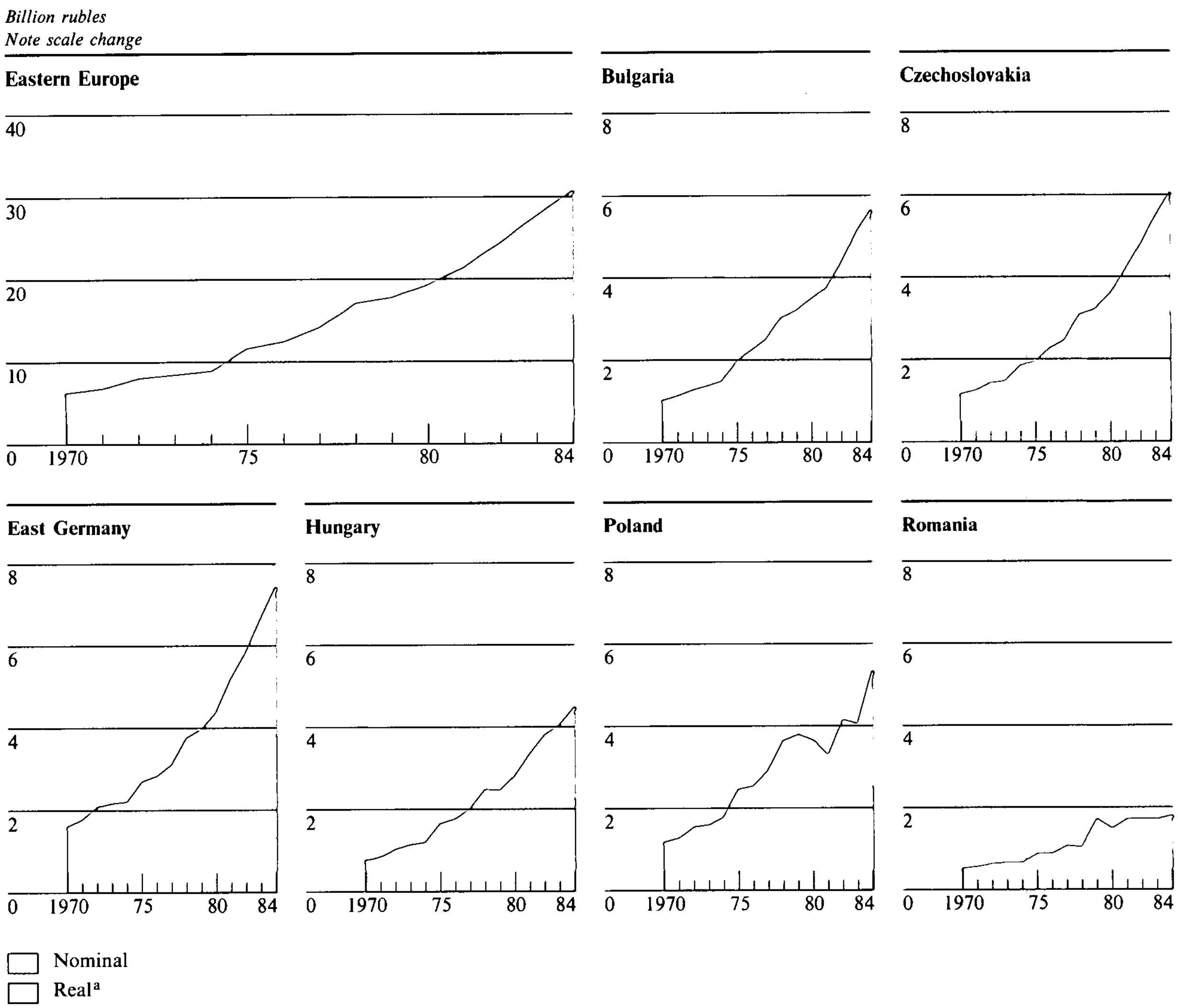
The degree of adjustment—as measured by the share of net real exports in total trade—has varied widely. East Germany, Czechoslovakia, and Hungary have borne the greatest burden with large resource outflows to the Soviets relative to total trade. During 1981-84 the volume of net exports in 1970 prices from

[5] Official Polish price data indicate a price of 159 rubles per ton of Soviet oil in 1984. At 1983 ruble-dollar exchange rates—the rate probably used when 1984 CEMA prices were set—this price equates to $27 per barrel, which was slightly above world prices. Using the 1984 exchange rate yields a price of $26 per barrel, 7 percent below the OPEC price.

[6] The figures presented here are in constant 1970 rubles; pricing trade in a later year would put a higher value on Soviet exports relative to the value of East European exports. For example, using 1977 prices the volume of net East European exports during 1981-84 increased by only 4 billion rubles. Using 1984 prices would show a net resource outflow from the USSR to Eastern Europe over the past 10 years, albeit a declining one. Because the sign of real trade flows and their magnitude depend on the choice of a base year, net real exports are not a definite indicator as to who received the most in bilateral trade in a given year. Nonetheless, they show that over time Eastern Europe has given relatively more for its imports from the USSR.

[7] See appendix B for details in trends on the commodity composition of trade.

Figure 4
East European Exports to the USSR, 1970-84



[a]Real exports in 1970 rubles.

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Figure 5
Eastern Europe: Net Exports to the USSR, 1970-84

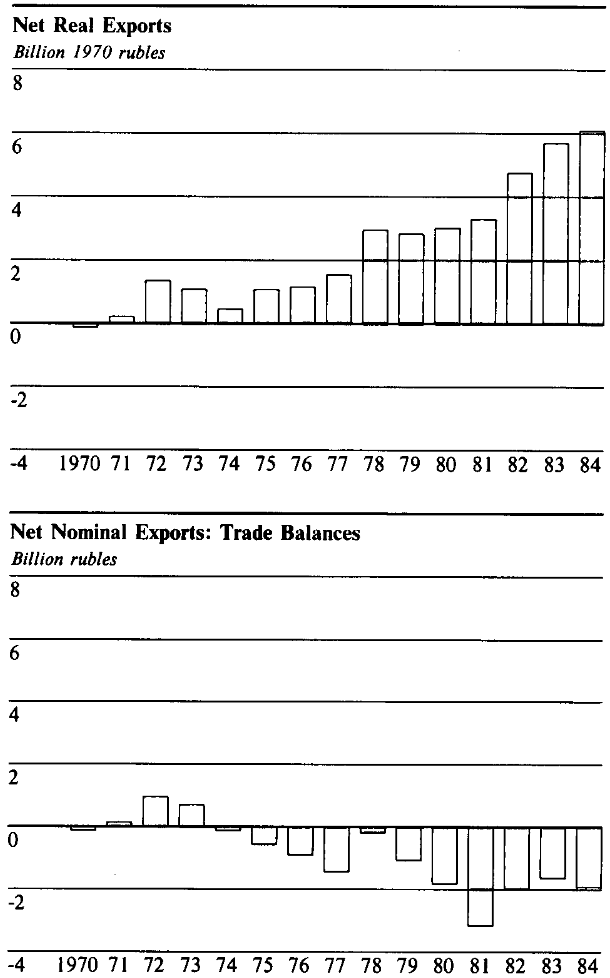

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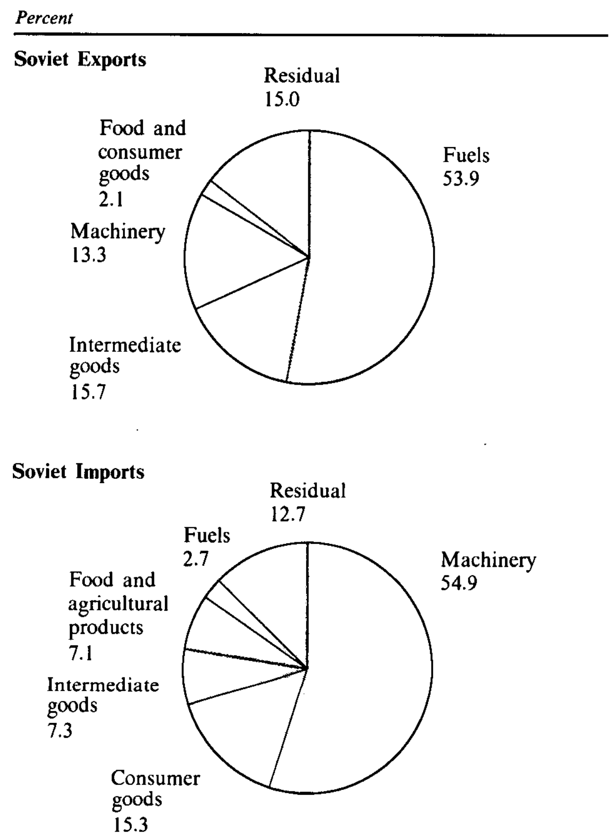
Figure 6
USSR-Eastern Europe: Commodity Composition of Trade, 1984



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these countries totaled 5.5 billion rubles, 4.9 billion rubles, and 3.2 billion rubles, respectively. In all three countries net exports accounted for roughly one-fourth of the total volume of trade over the period. As some of the largest importers of energy and raw materials and the leading exporters of machinery, terms of trade movements hit these countries hardest and required correspondingly greater adjustments.[8]

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[8] J. Vanous and M. Marrese, in *Soviet Subsidization of Trade with Eastern Europe*, conclude that East Germany and Czechoslovakia received the largest implicit subsidies from Moscow during the 1970s because of the political and military benefits these countries provide to the Soviets. In terms of opportunity costs—what the Soviets sacrificed by providing underpriced oil for overpriced machinery—East Germany and Czechoslovakia did receive the greatest subsidies, but they were also hit hardest by the elimination of these subsidies. We believe that these developments were more or less automatic consequences of the structure of these countries' trade with the USSR rather than conscious Soviet granting and withdrawing of trade benefits.

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Table 1
Eastern Europe: Patterns of Trade Adjustment [a]

	East European Exports to the USSR (*average annual percentage change*)		East European Imports From the USSR (*average annual percentage change*)		Net Exports to the USSR (*million rubles*)		Net Exports to the USSR as a Percent of Total Trade	
	Nominal	Real [b]	Nominal	Real [b]	Nominal	Real [b]	Nominal	Real [b]
Total								
1971-75	**13.6**	**8.9**	**14.3**	**5.8**	**1,027**	**4,109**	**1.23**	**5.56**
1976-80	**11.0**	**5.7**	**12.0**	**2.3**	**−5,346**	**11,505**	**−3.26**	**11.65**
1981-84	**12.4**	**6.0**	**11.6**	**0.3**	**−8,661**	**19,865**	**−4.02**	**21.98**
Bulgaria								
1971−75	14.7	8.2	19.5	10.8	115	357	0.83	2.94
1976−80	12.2	7.8	12.2	2.1	−759	1,786	−2.59	10.36
1981−84	13.0	7.2	13.7	4.0	−2,248	2,878	−5.69	17.36
Czechoslovakia								
1971−75	11.2	7.6	13.3	4.0	36	770	0.25	5.79
1976−80	12.6	7.3	12.6	2.4	−576	3,067	−1.96	17.54
1981−84	14.2	8.0	15.9	3.4	−1,619	4,902	−3.84	28.48
East Germany								
1971−75	11.2	7.6	11.4	3.2	277	1,258	1.32	6.59
1976−80	10.4	4.4	10.3	0.7	−2,151	2,245	−5.70	9.76
1981−84	14.2	8.1	11.3	−0.7	−1,331	5,540	−2.60	25.45
Hungary								
1971−75	17.5	11.9	16.9	8.0	56	429	0.51	4.89
1976−80	11.3	6.3	12.5	2.6	−676	1,785	−2.91	12.98
1981−84	12.6	6.6	9.7	−0.2	96	3,246	0.31	24.84
Poland								
1971−75	16.2	11.2	15.0	6.7	100	739	0.60	4.92
1976−80	8.4	3.2	12.5	3.4	−1,350	1,852	−3.98	9.07
1981−84	10.2	2.3	8.3	−3.7	−3,686	2,214	−9.58	14.23
Romania								
1971−75	11.7	6.8	9.6	3.1	442	553	7.58	10.40
1976−80	11.8	7.1	14.0	4.5	167	768	1.58	11.27
1981−84	5.1	−0.8	7.6	−1.2	128	1,080	0.95	17.47

[a] Source: Soviet and East European trade statistics and CIA estimates.
[b] Computed in constant 1970 prices.

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The volume of Romanian, Polish, and Bulgarian net deliveries, on the other hand, accounted for only one-sixth of each country's trade with the USSR. The Soviets maintained deliveries of essential commodities to Poland during 1979-81 to keep Poland's economy afloat despite a steep drop in Warsaw's exports to the USSR. Despite some highly publicized aid packages, the volume of Poland's imports from the USSR fell slightly in 1981 and dropped by one-fifth the following two years. By 1982 Poland's volume of exports to the USSR began to recover as the economic and political situation began to stabilize. Although Poland posted by far the smallest rate of growth in net real exports of any East European country, it still managed to boost these deliveries from 1.9 billion rubles in 1976-80 to 2.2 billion rubles in 1981-84. [redacted] most of the credits from Moscow were used to cover higher prices rather than to pay for extra goods. [redacted]

Although Sofia's trade structure with the USSR is much like that of East Germany, Czechoslovakia, and Hungary, the burden of adjustment in terms of net exports—2.9 billion rubles in 1981-84—has been significantly less. [redacted] Moscow was sharply critical of Sofia's export performance and of reexports of Soviet oil for hard currency in recent years, but trade in nominal and real terms did not reflect adjustments as sharp as in other countries. Indeed, Bulgaria received an increase in the volume of imports from the USSR in the early 1980s. Whether this reflects Soviet favoritism toward a close ally is not clear. [redacted]

Our figures show that Romania's trade position with the Soviets deteriorated less than that of most other countries. Bucharest was largely sheltered from the fall in Eastern Europe's terms of trade because it received little oil from the USSR rather than as a result of Soviet concessions. [redacted]

Eastern Europe Maintains Trade With the West

Adjustment to higher oil prices and Soviet trade demands coincided with Eastern Europe's hard currency debt crisis of the early 1980s. Imports from the West plummeted as the East Europeans imposed austerity measures to boost hard currency surpluses to service their debts. Worried about the risk of political instability, most countries tried to maintain living standards by letting the brunt of the import cuts fall on investment rather than consumption. Soviet demands for more of Eastern Europe's resources clashed with the East Europeans' efforts to devote more funds to modernize their domestic industries, provide more consumer goods to domestic consumers, and export more to the West to service hard currency debts. The transfer of resources to both the West and the USSR during the early 1980s slowed increases in national income used domestically in Eastern Europe, resulting in reduced investments and slower growth in consumption, according to a study by Czechoslovak economists. [redacted]

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Stripping price movements from trade data to obtain *real* trade flows shows the following trends at work that forced Eastern Europe to make similar adjustments with both the West and the USSR during the early 1980s:

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- Terms of trade moved against Eastern Europe in trade with the West as well as with the Soviets. With the USSR, East European import prices rose faster than prices received for exports, while export prices of nonsocialist countries fell faster than import prices.[9]

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- The volume of Eastern Europe's imports from both the USSR and the West fell, albeit more sharply from the West. Real imports from the West, stagnant from 1977 to 1980, fell sharply in 1981-82 before rising in 1983-84. Poland and Romania recorded the largest declines.

[9] The fall in prices in trade with the West resulted in part from the strengthening of the dollar against West European currencies through 1984. Dollar-denominated measurements of Eastern Europe's trade with the West show lower values than trade denominated in other Western currencies. [redacted]

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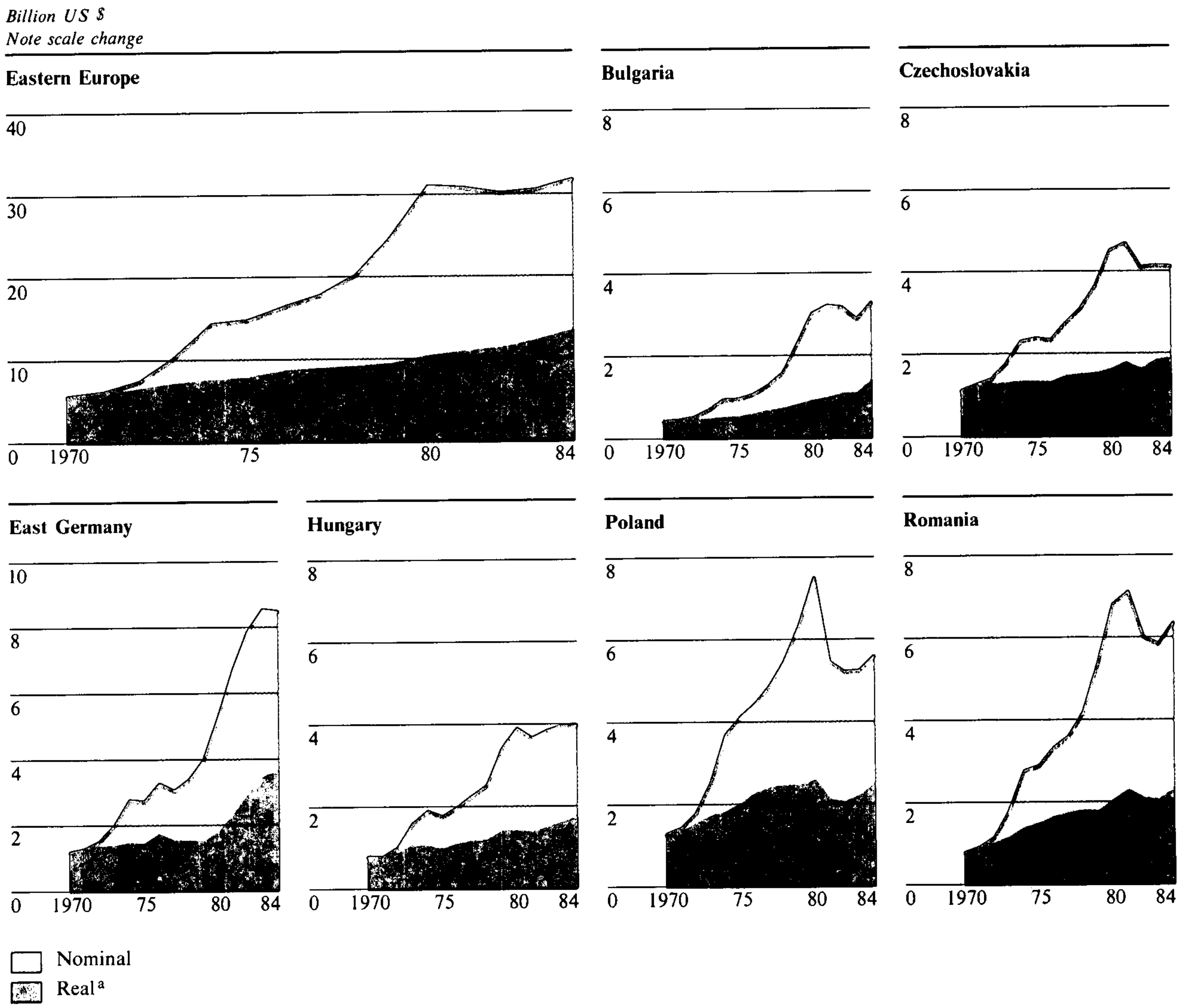
Figure 7
East European Exports to Nonsocialist Countries, 1970-84



[a]Real exports in 1970 US $.

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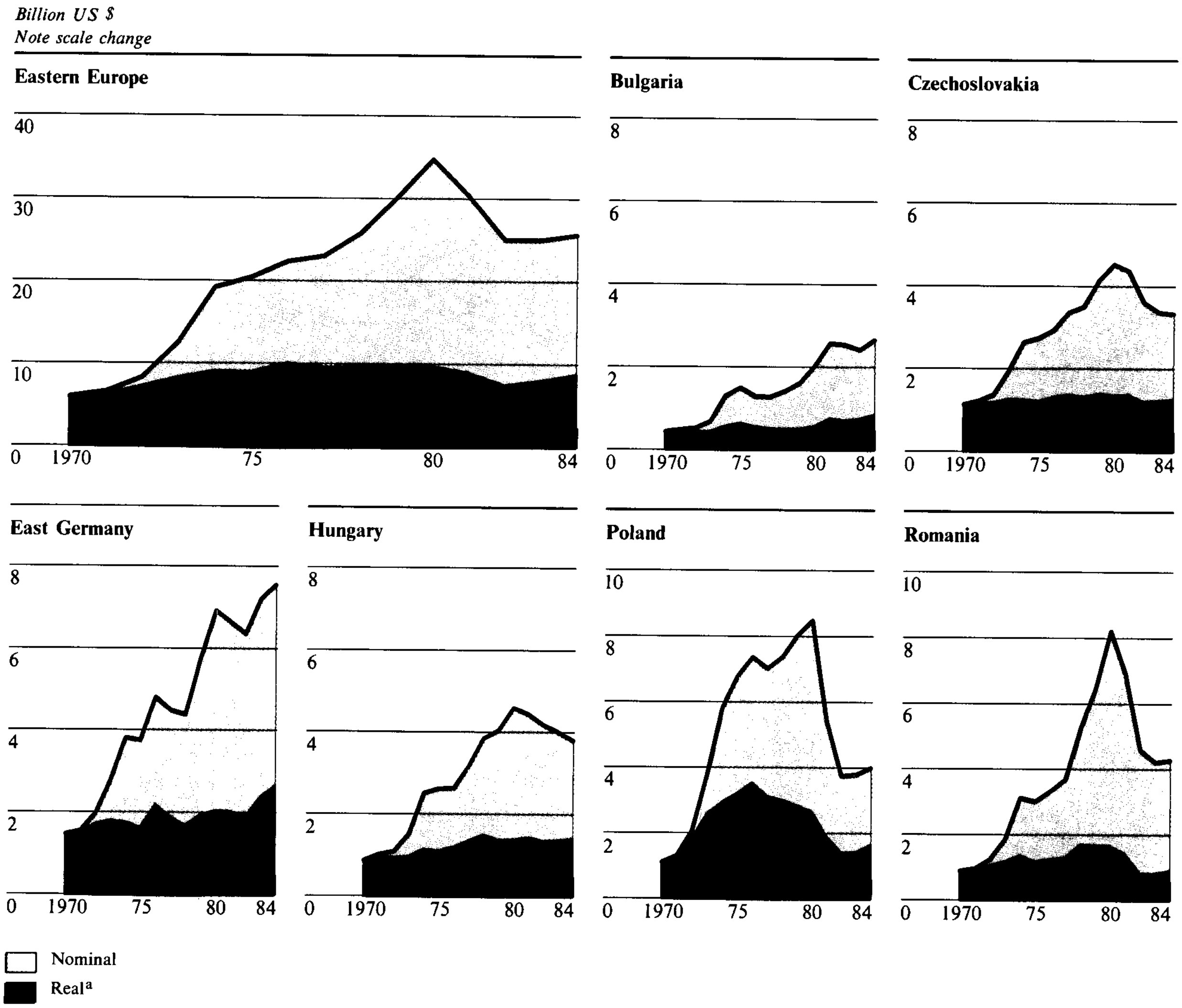
Figure 8
East European Imports From Nonsocialist Countries, 1970-84



[a]Real imports in 1970 US $.

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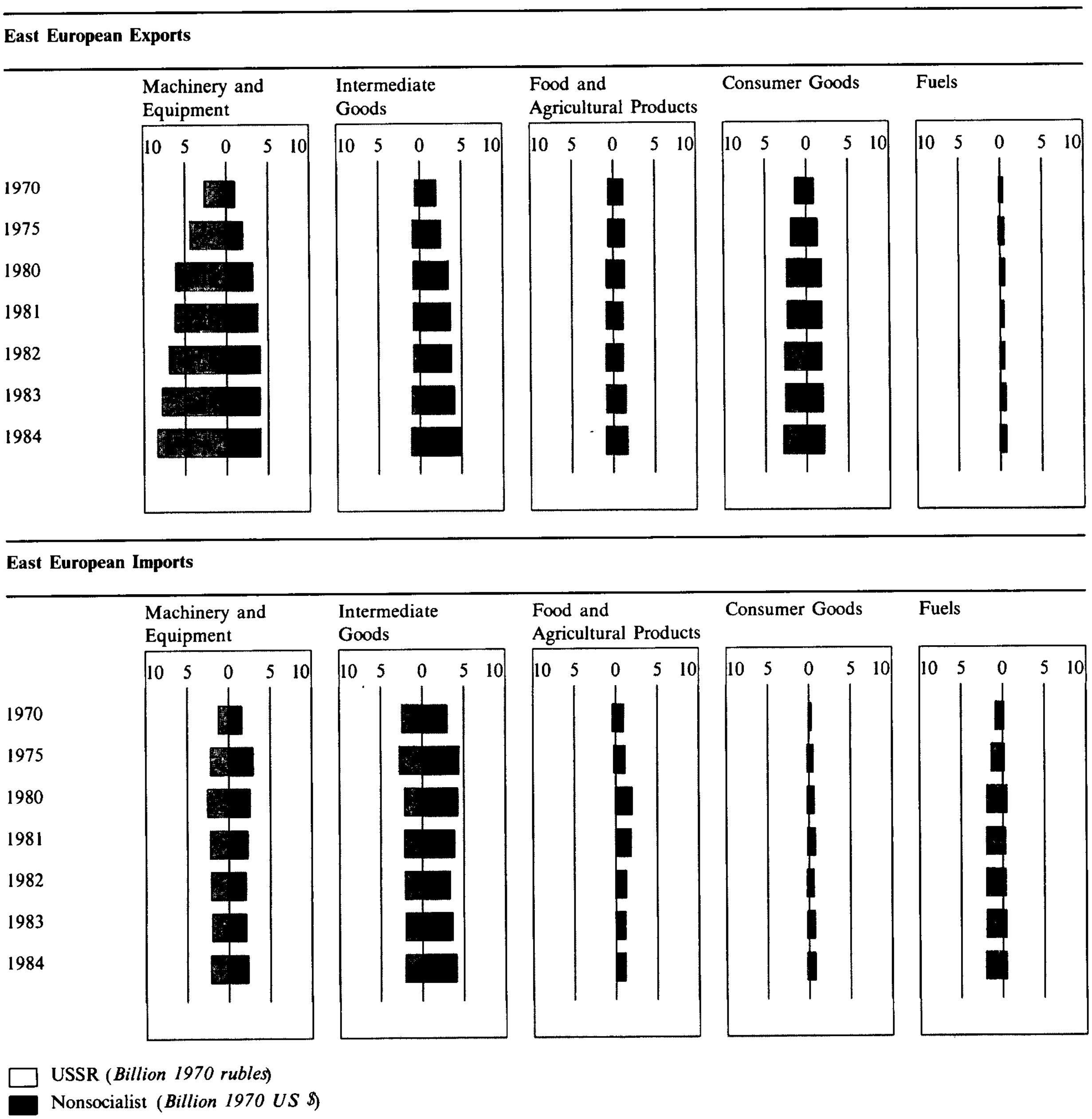
Figure 9
Comparison of East European Commodity Trade With the USSR and the West



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- Eastern Europe, excluding Poland and Romania, boosted exports at high rates in the early 1980s to the West and to the USSR, largely on the strength of gains in sales of machinery. The region's real exports to the West rose an average of 7 percent per year during the 1980s.

In the early 1980s it was widely believed that Eastern Europe would reorient trade away from the West and toward the USSR. After martial law was declared in Poland, the regime announced Warsaw's plan to shift its economic relations toward Moscow. Many in Eastern Europe and the West expected that Eastern Europe's financial crisis of the early 1980s would lead to similar policies throughout the region as the countries sought to increase imports from the USSR and to avoid hard currency outlays in trade with the West.

The similarity in Eastern Europe's trade trends with the USSR and the West shows that for the region as a whole a major shift in real trade did not occur. The USSR did not provide the resources to help the East Europeans reorient their economies. Moscow's tough economic policy toward its allies for the most part prevailed over any inclination to supply substitutes for Western goods.

Nonetheless, several countries' trade clearly shifted toward the USSR (see table 2) as:

- The volume of Czechoslovakia's trade with the USSR increased almost 6 percent per year, compared with 2 percent annually for nonsocialist countries during the past decade.

- The share of imports coming from the USSR rose sharply in the early 1980s for Poland and Romania, reflecting the steep drop in imports from the West relative to declines in imports from the Soviets.

We believe that Czechoslovakia alone of these three countries reoriented trade toward the USSR as a deliberate policy. Czechoslovak leaders follow Moscow's lead closely and have been the most vocal among East Europeans in calling for closer CEMA trade ties and integration. Prague has also been extremely cautious in trade with the West, refusing to borrow to import badly needed Western goods. The shift in real trade, nonetheless, has been slight in comparison with the burgeoning share of the USSR in Czechoslovakia's nominal trade.

For Poland and Romania the rising Soviet share of real imports resulted more from their drives to reduce hard currency outlays than from the forging of new trade links. Rather than filling the gap resulting from the cutback in Western imports, imports from the Soviet Union also declined. These countries became increasingly dependent on Soviet supplies only in the sense that Moscow provided a larger piece of a shrinking pie.

Table 2
Eastern Europe's Real Trade With the West [a]

Average annual growth rates

	1971-75	1976-80	1981-84
East European imports			
Total	**8.8**	**1.5**	**−2.5**
Bulgaria	8.4	2.4	10.5
Czechoslovakia	1.7	2.2	−1.7
East Germany	2.1	4.7	6.7
Hungary	2.1	4.4	0.5
Poland	23.3	−3.6	11.2
Romania	6.1	6.9	−13.7
East European exports			
Total	**7.0**	**5.9**	**6.7**
Bulgaria	4.8	11.6	11.4
Czechoslovakia	3.6	4.1	4.0
East Germany	4.1	4.4	19.0
Hungary	4.3	7.5	5.7
Poland	9.5	5.1	−1.1
Romania	14.0	6.6	2.9

[a] Source: CIA estimates.

The rest of Eastern Europe maintained strong trade ties to the West in the 1980s as:

- East Germany's [10] and Bulgaria's trade with the West grew faster than their trade with the USSR. Both exports and imports increased rapidly.
- Hungary's trade with the Soviets and the West grew at a similar pace.

Despite the different shifts in trade shares for individual countries, the Soviets still dominate the region's trade. Eastern Europe remains heavily dependent on Soviet deliveries, but the degree of dependency—as represented by the volume of trade—did not increase greatly.

The Pendulum Swings Back

Moscow faces tough choices over the next few years in its trade relations with Eastern Europe. The Soviets want Eastern Europe to provide more goods to help revitalize and modernize the Soviet economy. The need for inputs from Eastern Europe has become even more important as falling world oil prices have slashed Soviet hard currency earnings, restricting Moscow's ability to import from the West. We expect lower world oil prices, however, to lead to a substantial shift in trade relationships between the USSR and Eastern Europe that will complicate Moscow's plans. Whereas the rapid price hikes of the 1970s increased the value of Soviet exports and strengthened Moscow's leverage by creating substantial economic claims on the region, the recent fall in oil prices will reduce the value of Soviet energy exports. To get what it wants from Eastern Europe, Moscow will have to lean harder on the East Europeans—even harder than during the early 1980s and harder than seemed necessary last year when trade agreements were completed for 1986-90. 25X1

1986-90 Trade Plans

Protocols signed between Moscow and its East European allies in the final months of 1985 outline the framework for trade through 1990. Expectations by the Soviets and East Europeans that trade prices would rise more slowly had a marked impact on formulation of these trade plans. Even before the latest fall in OPEC prices, the CEMA pricing mechanism indicated—on the basis of slipping OPEC prices during the early 1980s—that the steep rise in Soviet oil prices during the past decade would give way to relative price stability. These price projections resulted in:

- Planned average annual growth of only 5 percent in the value of total Soviet–East European trade during 1986-90—the slowest growth in planned trade in the past 15 years.[11]
- Improved terms of trade for Eastern Europe as price increases for Soviet deliveries would no longer outpace those for East European goods. 25X1

The protocols generally omit figures on the key question of how total trade will be divided between Soviet exports to and imports from Eastern Europe, but these factors suggest that the agreements called on Eastern Europe to run nominal trade surpluses:

- Eastern Europe's trade in 1985 was roughly in balance (except for Poland).
- The Soviet leadership clearly feels that its allies should repay the trade debt accumulated in the past 10 years. According to the Hungarian press, a major task in Hungary's trade during 1986-90 will be the repayment of ruble deficits accumulated over the past 10 years.

[10] Official East German statistics during the 1980s vary considerably from the "mirror" figures reported by East Germany's nonsocialist trading partners. Exports appear to be overvalued and imports undervalued. The data used in this paper are based on estimates prepared by Wharton Econometric Forecasting Associates that attempt to correct some of these problems in the official data. While these estimates still yield extraordinarily high rates of growth for the volume of East German exports to the West, we note that these growth rates cut even by half still support the conclusion of faster trade growth with the West than the USSR during the 1980s.

[11] Trade protocols do not indicate if turnover targets are in nominal or real terms. Evidence suggests, however, that these are nominal growth targets. For example, the Hungarian press indicates that the volume of Hungary's trade with the USSR during 1986-90 will rise by 15 percent compared with 1981-85—with exports and imports growing at the same rate—which contrasts with growth of 31 percent in the value of turnover contained in the protocols. 25X1

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- The protocol for Poland—the country with the largest debts and in the weakest position to meet Moscow's demands—calls for Warsaw to balance trade over the next five-year period by running surpluses in the last two years of the plan.

Within the turnover target given in the protocols of 380 billion rubles for 1986-90, Eastern Europe conceivably could run surpluses large enough to repay the entire 16 billion rubles in trade debt by increasing exports in nominal terms by 7 percent annually and holding nominal import growth to 4 percent.

We believe that in real terms the protocols also provided for more balanced trade growth than during the past 10 years.

Other East European countries probably benefited likewise from such terms of trade gains under the protocols.

Moscow may have accepted slower and more balanced growth in real trade so that the region could meet other Soviet economic requirements. We strongly believe that the Soviets are much more serious about seeking improvements in the quality of the goods imported from Eastern Europe. Trade plans for Czechoslovakia for 1986-90, for example, include a list of 110 categories of machinery and equipment exported to the USSR that are to achieve a "higher technological standard." Hungary's trade plans with the USSR also include an agreement that almost one-third of Hungarian exports will be replaced by more updated products over the next five years.

Moscow is also pressing for increased cooperation and integration among CEMA members. In December 1985 a CEMA program for cooperation in science and technology was signed that called for increased cooperation in electronics, automation, nuclear power, and new materials. To implement the program, Moscow is pushing hard for the establishment of joint production associations that will develop and produce a variety of products, mostly in high-technology fields. All of these areas of cooperation stressed by Moscow are closely linked to Gorbachev's goals for his industrial modernization program and would more closely tie the East European economies to the needs of the USSR. Even though Eastern Europe's exports were to grow more slowly under the protocols than in previous years, Moscow's drive for quality and integration could be tailored to provide the USSR with more of the East European goods important in Soviet modernization plans. 25X1

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Oil Shock in Reverse 25X1

Just a few months after the CEMA countries concluded their trade agreements, the price of oil on Western markets began to plunge. Although Soviet hard currency imports already are being slashed, the collapse of world oil prices has had little impact until now on Soviet–East European trade; the East Europeans pay the equivalent of about $30 per barrel of oil at official exchange rates, and the CEMA price formula will not incorporate the price drop for 1986 until 1987. 25X1

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Beginning in 1987, however, lower oil prices should accelerate gains for Eastern Europe in terms of trade with the USSR compared with price projections probably used by planners in formulating 1986-90 trade plans. World oil prices in 1986 of $15 per barrel would cause Soviet oil prices to Eastern Europe to fall by 13 percent in 1987. If OPEC prices hold at $15 per barrel through 1990, CEMA oil prices will fall steadily to about $18 per barrel by 1990. CEMA oil prices should fall even if OPEC prices move somewhat higher.[12] 25X1

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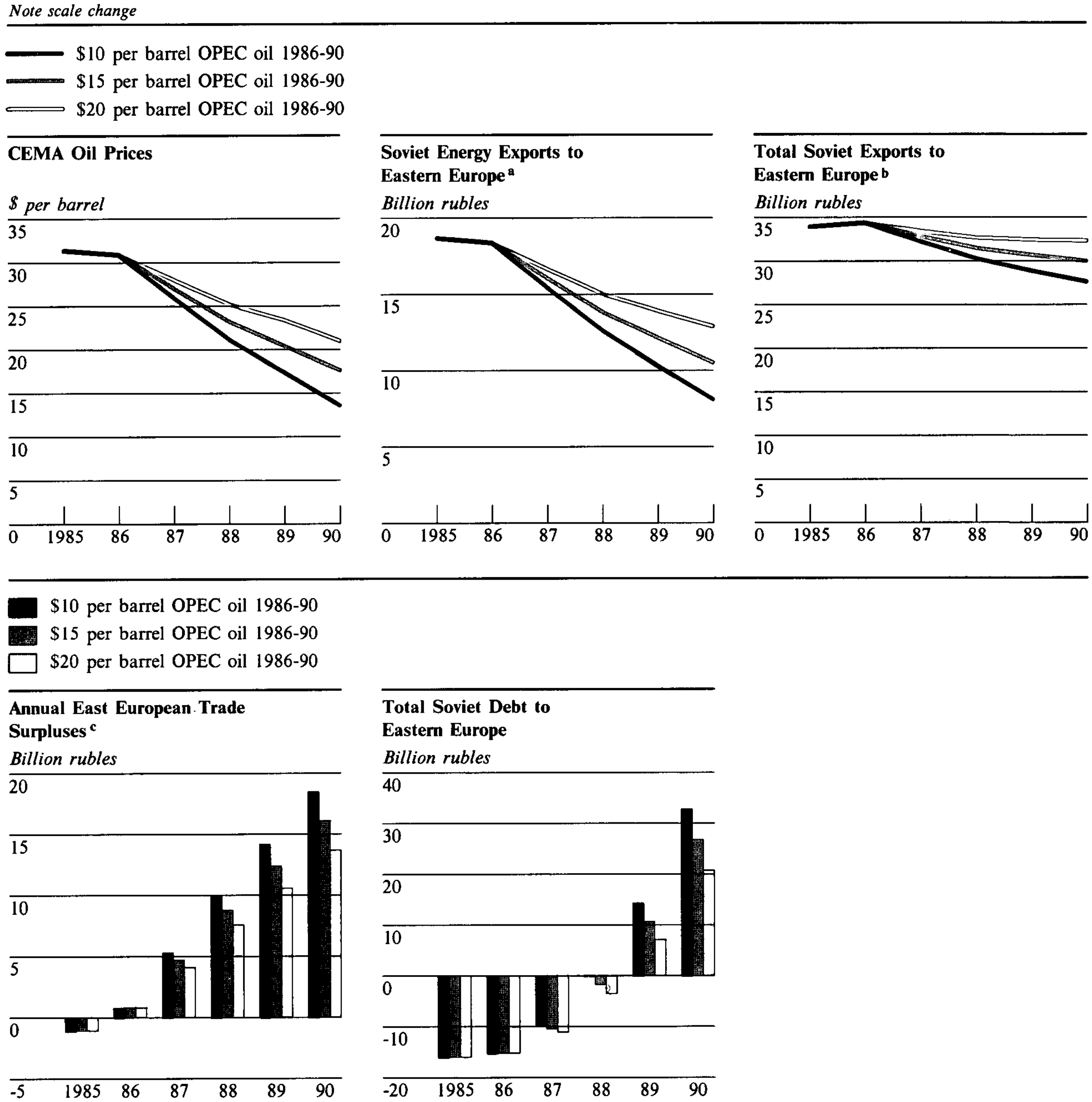
Cheaper oil will sharply cut the value of the USSR's exports to Eastern Europe. We estimate that lower energy prices may reduce the value of Soviet exports by more than 22 billion rubles over the next five years—most of it during 1988-90. The value of energy exports in 1990 alone would be 8 billion rubles lower than in 1985. Our estimates assume that: 25X1

- OPEC prices average $15 per barrel each year through 1990.

[12] Average OPEC prices of $20 per barrel in 1986-90 would cause CEMA prices to fall to $22 per barrel by the end of the 1980s. Even if OPEC prices rose by $5 each year to reach $35 per barrel by 1990, CEMA prices would still fall by nearly 20 percent from the 1986 level. 25X1

Figure 10
Soviet–East European Trade Under Different Oil Prices, 1985-90



[a] Assumes the volume of fuels–oil, gas, coal, and electricity–remains unchanged and prices of various fuels move together.
[b] Assumes 5 percent growth in Soviet non-energy exports.
[c] Assumes 7 percent annual growth in East European exports.

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- Soviet energy deliveries in volume terms to Eastern Europe continue through 1990 at the 1985 level, as Moscow pledged in the five-year protocols.
- Natural gas prices follow oil prices downward. [redacted]

If we assume further that nonenergy exports grow at 5 percent per year, total Soviet exports will fall some 4 billion rubles from the 1985 level to 30 billion rubles in 1990. [redacted]

Combining the Soviet export slump with continued increases in East European exports—increases that we believe the Soviets have planned for in the 1986-90 protocols—yields a dramatic turnaround in trade relations. After a decade of oil-related deficits, Eastern Europe would have a surplus of 5 billion rubles in 1987, far higher than any previous imbalance in intra-CEMA trade. Soviet deficits in only a few years would far exceed Eastern Europe's accumulated deficits over the past 10 years, enabling Eastern Europe to repay its trade debts to the USSR as early as 1988. Soviet deficits would continue to widen, climbing to 16 billion rubles in 1990. By 1990 the region's claims on the USSR will total 20-30 billion rubles, according to our projections.[13] [redacted]

The Soviet Dilemma

Gorbachev's ambitious economic program calls for Eastern Europe to provide resources that will help carry out the modernization of the USSR's stock of plant and equipment and the faster introduction of new technologies into industry. The fall in world oil prices—as a result of decreased hard currency earnings from the sale of oil to the West—makes inputs from Eastern Europe even more important. But it also provides Eastern Europe the economic grounds to resist Soviet demands. A reversal in the debtor-creditor roles, which we project, may lead the East Europeans to balk at providing the level of resources to the USSR called for under the protocols. The Gorbachev regime will have to decide whether the value of East European inputs is worth the trade disputes that are likely to occur with Eastern Europe. [redacted] 25X1

The Problem of Soviet Debt

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We believe that this scenario, in which price changes generate a huge Soviet debt to Eastern Europe under current plans, is a possible outcome. The Soviets could point to deficits accumulated by Eastern Europe during the runup in Soviet oil prices in the 1970s and early 1980s as a justification for unbalanced trade, although the Soviet deficits we project for the late 1980s are several times greater than those of a few years ago. Soviet leaders may believe that major trade adjustments to prevent such debts would tax domestic producers at a time when they are being pressed to meet the ambitious goals of Gorbachev's modernization program. [redacted] 25X1

25X1

We judge it more likely, however, that there will be major changes in the way that CEMA conducts trade, or in the 1986-90 trade plans in order to contain the size of the probable Soviet debt. Both sides probably have reason to oppose the large trade debts that would occur under current trade plans. By becoming a debtor to Eastern Europe, the Soviets would provide the region with claims on future supplies of Soviet goods. [redacted] 25X1

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The East Europeans are likely to accept Soviet trade deficits to repay past trade credits extended by Moscow and, once these debts are repaid, may even agree to some Soviet indebtedness as a hedge against possible future increases in energy prices. Nevertheless, having made large trade adjustments in response to price movements during the past 10 years that benefited the Soviets, Eastern Europe probably expects some quid pro quo. If Gorbachev's team decides to

[13] Varying the OPEC price from our assumption of a $15 per barrel average does not change the medium-term outlook much. If OPEC prices average $10 or $20 per barrel, East European surpluses in 1990 would be 2 billion rubles higher or lower, respectively. [redacted] 25X1

deny Eastern Europe the benefits of the altered price relationship, the East Europeans are almost certain to object. Moscow's allies are unlikely to accede quietly to granting the USSR tens of billions of rubles in trade credits at the expense of their other economic goals. Moreover, the East Europeans could argue that huge and growing surpluses would violate the principle of balanced trade that is fundamental to CEMA's trade system.

Adjustment Options

We believe that the Soviets and East Europeans have basically these options to avoid large Soviet trade deficits:

- The USSR could push through changes in CEMA pricing to negate the deterioration in its terms of trade.
- Moscow could step up nonoil exports to offset the fall in oil earnings.
- The USSR could reduce the rate of growth of its imports from Eastern Europe.

By choosing the first option, the Soviets could maintain planned trade flows in real terms and avoid large nominal deficits. The latter options would require revisions in the planned deliveries for this five-year period. In dealing with lower oil prices, Moscow will probably choose a combination of the above options rather than rely on a single course of action.

Altering CEMA's Price Mechanism

Moscow could change the current system of pricing in several ways in order to counter falling oil prices.[14] CEMA could revert to the pre-1975 practice of fixing prices over five-year periods based on average world prices during the previous five years. Soviet oil prices would remain at the present high level. Moscow could argue that such a change protects CEMA trade from the vagaries of world markets and that Soviet oil production costs justify the higher prices. Although CEMA's adoption of the Bucharest formula in 1974 illustrates Moscow's power to push through proposals benefiting the USSR, Eastern Europe successfully fought off a Soviet plan to accelerate the rise in CEMA oil prices resulting from the second surge in OPEC prices in 1979-80. 25X1

Alternatively, the Soviets could try to negotiate lower prices for East European goods. Oleg Bogomolov, director of the main Soviet institute for research on CEMA, hinted at this when he remarked to US Embassy officers in June 1986 that Moscow pays twice the amount it should for East European goods—a claim that cannot be confirmed. Even though the quality of East European goods probably justifies price discounts, across-the-board cuts in machinery prices could reduce the incentive for Eastern Europe to meet Soviet requirements for higher quality machinery. Lower prices probably would have to be agreed on during protracted bilateral trade negotiations for each country and for individual goods. 25X1

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Increase in Soviet Exports

Moscow could offset the fall in energy prices by increasing the volume of exports above previously planned levels. The Soviets have already adopted such a strategy in trade with Finland and Yugoslavia, which, like the CEMA countries, conduct trade with the USSR on a barter basis through clearing accounts. Trade with Yugoslavia and Finland, however, is in current world prices, thus requiring more immediate attention:

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- Soviet officials agreed in April 1986 to supply an additional $500 million in machinery, raw materials, and semimanufactured goods to Yugoslavia to help offset the effects of falling oil prices.

- In June, Finland and the USSR signed a supplementary trade protocol that provides for increases in Soviet deliveries of crude oil, coal, natural gas, electricity, raw materials, automobiles, trucks, and machinery worth more than $1 billion. 25X1

[14] Despite reports from the CEMA summit in 1984 that the Bucharest formula would be revised, the CEMA Executive Committee announced in January 1986 that the formula will remain unchanged through 1990.

25X1

Moscow's decision to raise exports to these countries in response to falling oil prices may be a preview of Soviet adjustment in CEMA trade. Indeed, Bogomolov told a Hungarian interviewer in September 1986 that the fall in energy revenues that result from CEMA price declines would make it difficult for the Soviets to balance trade with socialist countries and that Moscow will have to find new resources to export. If so, Moscow probably will look to machinery and manufactured goods to generate increases. Shifting the structure of exports toward finished goods is a longstanding goal, and Moscow could funnel deliveries to those East European industries producing goods most important in Soviet economic plans and CEMA specialization agreements.

Slow Soviet economic growth and problems in the USSR's trade with the West, however, will make large increases in nonenergy exports to Eastern Europe difficult. Machinery accounts for only about 14 percent of Soviet exports. In order just to maintain overall nominal exports levels to Eastern Europe, the Soviets would have to boost nonenergy exports by an average of 11 percent annually during 1987-90. During the past 10 years nominal growth slumped to less than 5 percent per year, even with rapidly rising prices. In an era of more stable prices, the USSR would have to step up export volumes substantially.

Moscow may attempt to raise exports by insisting that its allies increase purchases of Soviet military equipment. East Europeans successfully resisted increasing procurement of military equipment over the past decade by claiming they could not afford more equipment purchases. Moscow's need to boost overall exports could lend weight to Soviet arguments for Eastern Europe to step up participation in military programs.

Increases in gas deliveries could at best offset only a small amount of lost oil exports, especially with gas prices following oil prices downward. Eastern Europe is not scheduled to receive large additions of gas until the early 1990s when the Yamburg pipeline comes on line. Although the Soviets may be willing to accelerate deliveries through existing pipelines, the East Europeans' lack of infrastructure makes them unprepared to use large increases. Moreover, gas sales—representing only about one-fourth of the value of energy exports to the region—could not expand enough to offset oil price declines. 25X1

The Soviets have promised more electricity deliveries to Eastern Europe, but electricity makes up less than 4 percent of the value of energy deliveries and would also do little to counter falling oil prices. 25X1

The problem of impending trade deficits is one reason for Moscow to maintain deliveries of essential commodities such as oil to Eastern Europe. Although the USSR's hard currency shortage and continued oil 25X1 production problems would appear to make diversion of oil exports from Eastern Europe to hard currency markets increasingly attractive to Moscow, any cuts in deliveries would further reduce Soviet exports and widen the USSR's trade gap with the region. In addition, the hard currency gains from diverting oil away from Eastern Europe to the West are less than at any time in the past 10 years, given the relatively high price of CEMA oil compared with world prices. Although some East European economies could sustan marginal cutbacks of Soviet oil, additional hard currency revenues for the USSR would be small. Cuts on the order of 50 percent would be required to recoup even half of Moscow's lost oil revenues—a level that 25X1 would cause severe economic and political disruptions throughout the region. 25X1

Slower Growth of Imports From Eastern Europe

Moscow could sharply curtail trade imbalances by reducing the growth of its imports from Eastern Europe. Every one-percentage point decrease in annual growth of these imports would reduce the Soviet deficits that we project by 5 to 6 billion rubles during 1986-90. For example, by limiting the growth of 25X1 imports from Eastern Europe to 5 percent per year—compared with our baseline projection of 7 percent—Moscow could trim its total deficit with Eastern Europe by more than 11 billion rubles during 1986-90. Moscow probably would cut purchases of low-quality goods, perhaps putting added pressure on Eastern Europe to raise production standards. 25X1

Moscow Weighs the Alternatives

A key to Moscow's policy on trade with Eastern Europe will be the success of Gorbachev's modernization program. The plan to revitalize the Soviet economy counts on more high-quality machinery and equipment to modernize the capital stock. Eastern Europe is expected to help shoulder the burden by participating in Soviet resource projects that provide for large deliveries of East European machinery, equipment, and manpower to the USSR. More consumer goods and food from Eastern Europe supplement Soviet plans to provide more incentives for workers to increase productivity. If the goals of the modernization program are not met, as seems probable, Moscow will be less willing to alter planned trade flows to Eastern Europe's advantage.

Economic and political stability in Eastern Europe, along with Moscow's modernization needs, may convince Moscow that its allies should trade at planned levels despite movements in prices. If the East Europeans handle Soviet economic pressure relatively easily, the Soviets may see little need to adjust plans in response to shifts in the terms of trade. Moscow probably will carefully consider the situation in individual countries in deciding how hard to push. The Soviets may be more hardnosed in trade with East Germany, Czechoslovakia, and Hungary—countries considered politically stable, relatively well off economically, and better able to provide the quality goods desired by the USSR—and more lenient toward economically burdened Poland and Romania.

The East Europeans will resist efforts by Moscow to take away their terms of trade gains. The 22 billion rubles that we estimate in lost Soviet revenues from energy exports to Eastern Europe during 1986-90 represent an equivalent saving for Eastern Europe that the regimes probably hope can be converted into resources for their economies. Eastern Europe's economic outlook is dimmed by many of the same problems facing Soviet planners—raw material constraints, limited hard currency import capacity, and outdated technology. In particular, most of the countries will want to restore the investment cuts of recent years. The East Europeans will be loath to negotiate away to the USSR the resources badly needed for their own economic development. For the East Europeans, the problem is how to capitalize on the potential windfall gains from lower oil prices while minimizing the damage to relations with Moscow.

The Soviets and the East Europeans have not given a definite indication as to which course they will pursue. Since the 16-billion-ruble debt owed by Eastern Europe provides some breathing room, Moscow may not feel the need to act. But the speed and the degree to which the turnaround in trade positions will occur suggest that it is in Eastern Europe's, if not Moscow's, interest to move now rather than later. Some recent Soviet actions—such as Bogomolov's statement and attempts to narrow the USSR's trade deficit with Finland and Yugoslavia—indicate that Moscow is at least aware of the problem and may be considering some adjustments.

Moscow probably would like to pursue a course that leaves planned trade flows intact and maximizes Eastern Europe's contributions to meeting Soviet economic goals. We believe, however, that the East Europeans will object to extending the required large trade credits to the USSR. As a result the Soviets are likely to resort to a combination of options entailing both pressure and concessions:

- Efforts by Moscow to lower prices for East European goods—particularly low quality items—are likely to increase but probably will be insufficient to counteract falling oil prices.

- Failing to lower prices significantly, Moscow probably will adjust trade flows first by increasing exports to Eastern Europe. The Soviets, however, will have difficulty generating enough exports to erase the deficits. The machine-building sector, which would have to provide much of the increase, has already been heavily tasked by Gorbachev during the next five years in meeting domestic needs.

- If altering prices and boosting exports fall short, the Soviets may accept slower growth in imports from the region. We believe that this would be the

USSR's least preferred course because it would reduce the East European role in Soviet modernization plans. In this case, Moscow most likely would insist that any cuts in East European shipments be in lower quality goods.

• Regardless of the mix of the above options that are chosen, Moscow probably will accrue some debt to Eastern Europe, requiring the region to run surpluses beyond those necessary to repay Soviet trade credits.

Indications of exactly where the trade relationship is heading may be forthcoming soon. The Soviets and the East Europeans will soon conclude the annual trade protocols for 1987. Some divergence between these pacts and the five-year trade plans would be further evidence that the Soviets are willing to make adjustments. A failure to alter current trade arrangements would not be a definitive sign, however, that the Soviets are going to play hardball. Moscow's approach to the problem is likely to evolve over time and adapt to changing internal and external circumstances. For example, Moscow may postpone any actions until it gets a better handle on the future of oil prices and the responsiveness of the economy to recent initiatives. Should Soviet economic problems worsen and the modernization progam falter, Moscow would be more inclined to keep up trade pressures on Eastern Europe. Finally, we also expect the Soviets to tailor the combination of options to fit the economic and political situation in different countries. The Soviets probably would be more willing to make adjustments that benefit a country in crisis, such as those they made for Poland in the early 1980s, than for economically stronger and more politically stable countries.

Implications

The impact of falling oil prices on Soviet–East European trade will provide a good test of Gorbachev's policies toward Eastern Europe. While the modest targets for trade growth in 1986-90 plans suggest moderate Soviet demands for more East European goods and closer economic ties, Moscow may have to step up pressure on the region in order to achieve its economic objectives. Gorbachev's ability and willingness to exercise control over Eastern Europe may be revealed by how hard he presses Moscow's economic agenda in the face of adverse price trends and East European opposition. 25X1

A decision by Moscow to adjust planned trade flows would reduce the cost to Eastern Europe of contributing to Moscow's modernization program. Moreover, Moscow would be less able to turn to Eastern Europe to substitute for Western imports. We estimate that Soviet hard currency shortages resulting from falling energy exports to the West could reach $5.6 billion in 1986 with average OPEC prices of $15 per barrel. Reductions in overall net imports from Eastern Europe implies that the Soviets could not use East European machinery and equipment to take up the slack. 25X1 25X1

Higher net resource flows from the USSR—as a result of increased Soviet exports to Eastern Europe or a reduction in planned imports by the USSR—would clearly benefit Eastern Europe by providing it with more goods for domestic investment or consumption. Nonetheless, a cutback in the volume of East European goods the USSR plans to import could prove in some respects a mixed blessing for the region. Eastern Europe would have difficulty finding alternative markets for the poor-quality goods that Moscow probably would cut first. Soviet pressure may shift to other aspects of the economic relationship; Soviet insistence on scientific and technical cooperation and integration may force structural adjustments and higher production costs that do not appear in trade statistics within the region. Meeting quality demands may still cut into Eastern Europe's ability to earn hard currency through exports to the West and to satisfy domestic needs. 25X1 25X1

Alternatively, attempts by Moscow to deny Eastern Europe the benefits of terms of trade gains would probably aggravate tensions with the region. Worsening political ties to Eastern Europe in this scenario would possibly be more costly in the long run to the Soviets than resource gains. Squabbles over trade could also limit East European willingness to participate in CEMA's science and technology program and joint investment projects. 25X1

Western policymakers probably can do little to affect Soviet and East European responses to impending trade conflicts. Nonetheless, changes in Soviet–East European trade relations that will result from these choices may provide the West with greater opportunities to influence these regimes. Renewed East European interest in trade with the West—whether as a result of Soviet adjustments that give the region more flexibility or because of resentment against the Soviets—could lead some countries to be more willing to meet Western conditions for lowering trade barriers. To strengthen ties to the West, however, would require tough political decisions by the East European regimes—particularly in the case of continued Soviet economic pressure. Responses would vary among East European countries. The issue may be most important for East Germany and Hungary—countries most likely to be hardest pressed for goods and most inclined in the past to risk Moscow's ire to pursue their economic interests. 25X1

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Appendix A

CEMA Price and Quantity Indexes

Price and quantity indexes are available in several different forms for East European trade with socialist countries. In order to derive consistent estimates for the quantity of Eastern Europe's trade with both the USSR and nonsocialist countries, we relied on Hungarian price data. Other data series are valuable for comparison with the results obtained from using Hungarian price series. [redacted]

Hungarian Indexes

Hungary is the only East European country that provides price series for trade in both convertible and nonconvertible currencies for five commodity categories based on CEMA trade nomenclature. These series were the only choice to break down trade flows by commodity category and by region. After the series are converted from forint prices into rubles, they are used to deflate Soviet nominal trade series aggregated to correspond to the five commodity categories. [redacted]

Hungarian price series may not accurately reflect foreign trade price movements in other East European countries for several reasons. The Soviets may not charge all countries identical prices for their goods because of bilateral investment projects that may result in lower priced deliveries to participating countries or because of price discrimination on the part of the USSR. A significant portion of East European trade with the USSR—Hungary's in particular—is valued in hard currency rather than rubles, and presumably this trade is tied more closely to prices in world markets than ruble-valued trade. Hungarian statistics have a quirk in that spare parts are classified as raw materials rather than as machinery as is done in other East European countries. Despite these problems we believe that Hungarian prices are reasonable proxies for foreign trade prices of other East European countries. [redacted]

When using these price series to deflate trade as reported in Soviet statistics, the problem of the unspecified residual in Soviet trade data must be addressed. A large portion of the residual consists of trade in military equipment. According to estimates by Wharton Econometrics, in 1980 about 55 percent of the residual in Soviet exports and roughly 25 percent of Soviet imports from Eastern Europe were 25X1 armaments. The bulk of the remaining residual falls in the category of nonfood raw materials. For the purpose of estimating overall real trade with the USSR, the residual was deflated by the machinery price indexes and added to the total trade figure. This may be justified because East Europeans include arms in the machinery category of trade and because price trends of nonfood raw materials—the other large part of the residual—do not differ greatly from machinery prices. The exclusion of the residual yields quantity indexes that differ more in comparison with Soviet indexes but still illustrate the same trends. [redacted] 25X1

25X1

Polish Indexes

Poland regularly publishes price statistics but only for total exports and imports without a geographical breakdown. [redacted] 25X1

[redacted] 25X1

Soviet Indexes

Quantity indexes for total imports and exports in trade with CEMA countries are published by the USSR, but not the price data from which the quantity indexes are derived. In addition to the problem with the trade residual, these indexes differ from the

25X1

Table A-1
Soviet–East European Quantity Indexes

1977=100

	Official Soviet Index for Trade With CEMA[a]			Hungarian Price-Deflated Index (including residual)[b]			Hungarian Price-Deflated Index (excluding residual)[b]		
	Eastern Europe			Eastern Europe			Eastern Europe		
	Imports	Exports	Terms of Trade	Imports	Exports	Terms of Trade	Imports	Exports	Terms of Trade
1977	100	100	100	100	100	100	100	100	100
1978	105	116	91	102	115	89	100	117	85
1979	108	114	95	105	116	91	102	118	86
1980	112	115	97	107	117	92	106	116	91
1981	112	117	96	106	119	89	103	116	88
1982	107	134	80	104	131	79	101	129	78
1983	107	141	76	103	139	74	98	140	70
1984	111	150	74	108	148	72	103	151	68

[a] Source: Soviet foreign trade statistics; based on constant 1975 prices.
[b] CIA estimates based on Soviet foreign trade statistics and Hungarian price data taken from Hungarian statistical monthlies; based on constant 1977 prices.

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Hungarian price-deflated series for several other reasons. The clearest difference is that Soviet indexes include trade with Vietnam, Mongolia, and Cuba—comprising 15 percent of Soviet exports and 11 percent of imports in CEMA trade. Soviet indexes are based on constant 1975 prices, whereas our estimates use 1970 and 1977 prices as the base. Another reason is that the Soviet quantity indexes are Laspeyres indexes—implying that they are constructed from Paasche price indexes—whereas the Hungarian data are based on Fisher price indexes.

25X1

Table A-2
Hungarian and Polish Nonconvertible Trade Price Indexes [a]

1979=100

	Hungarian Index			Polish Index		
	Eastern Europe			Eastern Europe		
	Exports	Imports	Terms of Trade	Exports	Imports	Terms of Trade
1979	100.0	100.0	100.0	100.0	100.0	100.0
1980	108.0	109.2	98.9	104.8	106.9	98.0
1981	119.6	125.7	95.1	114.1	120.4	94.8
1982	124.3	135.0	92.1	120.3	131.2	91.7
1983	132.0	147.3	89.6	127.5	143.8	88.7

[a] Sources: Hungarian statistical monthly, various issues, [redacted] Note: These series represent price series for nonconvertible trade with all partners. The terms of trade decline much more rapidly for trade with just the Soviet Union because of the preponderance of high-priced fuels in Soviet exports.

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[redacted]

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Table A-3 *1970 prices*
East European–Soviet Trade Quantity Indexes [a]

	Bulgaria	Czechoslovakia	East Germany	Hungary	Poland	Romania	Total
East European imports							
1970	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1971	114.0	110.4	96.9	113.6	104.6	93.6	105.1
1972	124.6	107.8	89.7	110.7	100.5	98.9	103.2
1973	136.0	115.5	99.3	119.2	110.5	109.0	112.7
1974	157.5	123.4	110.5	133.0	134.7	117.7	118.9
1975	167.0	121.4	117.0	146.9	138.0	116.4	132.6
1976	165.3	126.5	114.8	142.1	142.1	115.5	132.8
1977	179.3	133.1	120.8	150.1	151.1	144.8	142.6
1978	195.9	129.4	121.2	161.5	151.0	134.7	145.0
1979	189.1	140.3	119.7	168.7	157.3	139.9	148.1
1980	185.1	136.7	121.0	167.0	163.0	145.1	148.6
1981	192.4	133.6	117.0	156.9	155.3	153.8	145.8
1982	197.6	135.6	120.4	160.9	128.6	141.3	142.0
1983	204.4	143.2	111.7	164.3	124.7	140.4	141.4
1984	217.2	156.0	117.8	165.4	140.1	138.3	150.3
East European exports							
1970	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1971	110.7	108.9	111.6	116.1	108.6	107.7	110.6
1972	121.9	123.4	130.4	134.0	131.9	122.3	127.8
1973	130.8	124.4	132.8	147.1	135.2	127.6	132.7
1974	132.1	132.6	135.2	149.6	149.5	122.3	137.6
1975	148.1	144.1	144.0	175.6	170.8	139.0	153.0
1976	160.2	155.9	139.0	180.0	162.2	134.7	154.6
1977	180.5	166.4	148.8	200.0	183.8	161.0	171.0
1978	208.7	197.8	170.7	234.2	217.9	151.9	197.1
1979	212.4	200.0	174.3	224.6	219.1	156.3	198.4
1980	216.0	205.2	178.4	238.1	198.6	196.0	202.0
1981	212.2	217.3	195.5	256.9	162.6	199.8	203.8
1982	238.3	240.4	211.3	281.3	193.7	188.0	224.4
1983	264.8	258.9	226.7	285.1	208.6	188.0	239.3
1984	285.0	279.0	243.7	307.0	217.7	190.3	255.5

[a] Source: Soviet and East European foreign trade data and CIA estimates.

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Appendix B

Trends in Commodity Composition of Real Trade

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This appendix examines the structure of Soviet–East European trade since 1970 in real terms. It provides details on changes over the period, including differences among East European countries in trade patterns with the USSR.

East European Imports

Eastern Europe experienced widespread declines in imports from the USSR during the 1980s. While Poland and Romania suffered the sharpest declines, all countries cut back purchases during some of these years. Stagnation in energy deliveries, as Moscow diverted oil exports to the West, and sharp cuts in imports of machinery accounted for much of the fall in imports.

Energy and Fuels

Energy has grown to dominate nominal Soviet exports to Eastern Europe, rising from about 30 percent of trade in 1977 to more than half in 1984. This rapid growth, however, obscures the stagnation in the volume of deliveries in the 1980s.

In trade plans for 1981-85, the Soviets agreed to supply 80 million tons of oil annually. These deliveries, however, were cut in 1982 to about 72 million tons when the Soviets reduced deliveries to Hungary, Czechoslovakia, East Germany, and Bulgaria in order to increase oil sales to hard currency customers in the West (see tables B-1 and B-2). Deliveries continued near this level through 1985. The Soviets for the most part maintained deliveries to Poland because of its economic difficulties. Deliveries to Romania, conducted on a hard currency basis and usually only a small portion of Romania's oil imports, were phased out in 1982 and 1983. The Soviets delivered 1.1 million tons in 1984 and 2 million tons in 1985, but these deliveries represented only about half of the contracted amounts. According to Soviet diplomatic sources, Moscow refused to deliver more oil when Romania was unable to provide the hard goods—products readily salable in the West—to pay for the oil. Oil deliveries to Bulgaria were reduced last year, according to the Soviet Ambassador in Sofia.

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In terms of fuel equivalents, total energy supplies from the Soviets in 1984 were roughly 3 percent lower than in 1980 despite increases in nonoil energy deliveries. Moreover, East European dependency on Soviet energy supplies, as measured by the percentage of total East European imports and consumption, has not increased appreciably over the past 10 years. Soviet gas deliveries, which rose from 29 billion cubic meters in 1980 to 34 billion cubic meters in 1984, increased dramatically as a share of Eastern Europe's gas consumption and partially offset the shortfall in oil. But gas still accounts for less than a fourth of energy imports from the USSR and a small part of total energy supplies. Rising gas deliveries also have been somewhat offset as a share of overall supplies by Eastern Europe's increased production of primary electricity. While coal and electricity deliveries from the USSR also increased, they together account for less than 15 percent of Soviet supplies.

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Machinery and Equipment

The reduction in Soviet exports in the 1980s fell largely on machinery, with the volume of deliveries to Eastern Europe declining by more than 20 percent during 1981-83. Imports rebounded by 8 percent in 1984. Much of the decrease was due to Poland's huge cutback in imports, although all countries experienced declines:

- Once the equal of Bulgaria as the biggest importers of Soviet machinery, Poland received only 40 percent as much in 1983 as in 1980. While little data on the quantities of specific machinery traded are available, the value of Polish imports of Soviet mining and oil drilling equipment, machinery for the food and chemical industries, agricultural machinery, hoisting machinery, and railroad rolling

Table B-1
East European Oil Trade [a]

Million metric tons

	1980	1981	1982	1983	1984	1985
Imports From the USSR						
Total	**79.8**	**80.1**	**71.8**	**69.8**	**71.5**	**70.6**
Bulgaria	14.7	14.7	13.4	13.4	13.4	12.0
Czechoslovakia	19.2	18.9	17.1	17.1	16.9	16.9
East Germany	19.0	19.0	17.7	17.1	17.1	17.1
Hungary	9.3	8.8	8.1	7.1	7.8	7.6
Poland	16.1	16.0	15.1	14.9	15.2	15.0
Romania	1.5	2.7	0.4	0.2	1.1	2.0
Imports from other sources						
Total	**22.6**	**16.2**	**18.9**	**24.6**	**25.8**	**27.7**
Bulgaria	0.7	1.0	1.7	2.0	2.3	3.4
Czechoslovakia	0.5	0.5	0.6	0.6	0.8	0.9
East Germany	2.9	3.7	4.0	5.6	6.2	6.8
Hungary	0.8	0.5	1.9	2.7	2.2	2.1
Poland	4.3	1.3	1.1	2.4	1.7	1.1
Romania	14.5	10.2	10.6	11.3	12.6	13.4
East European oil exports						
Total	**20.6**	**19.5**	**18.9**	**25.4**	**26.4**	**24.4**
Bulgaria	3.8	3.9	3.6	3.6	2.8	2.1
Czechoslovakia	1.7	1.2	1.4	1.6	1.7	1.6
East Germany	3.0	4.1	4.3	5.8	6.7	7.7
Hungary	1.7	1.4	2.5	3.9	3.9	2.0
Poland	1.6	0.8	0.6	1.4	0.4	0.6
Romania	8.8	8.1	6.5	9.1	10.9	10.4

[a] Source: CIA estimates, East European trade statistics, and PlanEcon estimates.

25X1

stock declined. Poland's imports expanded by 20 percent in 1984, but they were still only a little more than half of the 1980 figure.

- East Germany's machinery imports, after declining by 15 percent during 1979-82, plummeted by almost 20 percent in 1983 with cuts in purchases of machinery for chemical and light industries and transportation equipment. Imports rose nearly 13 percent in 1984 with increased purchases of power and electrical equipment, road-building equipment, tractors, and passenger cars.

- Hungary and Romania increased imports in 1982 following earlier declines but registered sharp downturns in 1983 and 1984. Hungary received fewer imports of mining equipment, oil drilling equipment, hoisting machinery, tractors, and shipping and airline equipment. Romania cut purchases of mining equipment, hoisting machines, light industrial equipment, agricultural machinery, and shipping equipment.

- Bulgaria and Czechoslovakia boosted imports over 1982-84 following declines during 1979-81.

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Table B-2
Eastern Europe's Dependency on Soviet Energy Deliveries [a]

	1975		1980		1984	
	Percent of Total East European Imports	Percent of East European Consumption	Percent of Total East European Imports	Percent of East European Consumption	Percent of Total East European Imports	Percent of East European Consumption
Total Energy	**77**	**25**	**76**	**29**	**75**	**27**
Oil	81	75	76	79	73	81
Gas	98	18	100	35	100	35
Coal	58	6	52	5	58	5
Electricity	55	32	63	27	56	25

[a] Source: Soviet and East European statistics and CIA estimates; based on barrels per day of oil equivalents.

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There are several reasons for the drop in machinery imports from the Soviets. Forced to trim import bills, the East Europeans clearly preferred to cut back on machinery rather than on raw materials and energy necessary to maintain current production. A Soviet lecturer in Moscow attributed the fall in the volume of machinery exports to rising costs of Soviet energy deliveries and because slower economic growth in CEMA led to decreased investment requirements.

Soviet production shortfalls of road-building equipment, tractors, and aviation and railroad equipment forced Eastern Europe to turn to the West for substitutes.

The Soviets may also have been reluctant to ship some machinery to Eastern Europe that could be sold in the West. The Soviets delivered only a third of the number of cars in 1983 as in 1980, while Soviet exports to the West rose by more than a third, to 144,000 units. The Hungarians received only half of the 50,000 Lada automobiles ordered in 1983, according to the Hungarian press.

While the East Europeans may not be eager to saddle themselves with poorer quality Soviet machinery at a time when planners hope to boost economic growth through increased productivity and more efficient use of resources, the upturn in imports from the Soviets in 1984 indicates that they may have little choice in view of the region's desperate need for new capital and the financial constraints restricting imports from the West. 25X1

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Intermediate Goods

Soviet deliveries of chemicals, building products, minerals, metals, and other nonfood materials fell by about 4 percent in both 1982 and 1983. Poland, East Germany, and Bulgaria experienced the largest declines in intermediate products in recent years, each receiving a lower volume from the Soviets in 1983 than in 1980. Poland was especially hard hit with decreased imports of ores, fertilizers, wool, lumber, and paper products. Soviet exports to the region increased roughly 5 percent in 1984 with increased deliveries to all countries, but Hungary and Romania were the only countries with imports in 1984 significantly higher than 1980 levels.

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Table B-3
Soviet Exports of Selected Goods to Eastern Europe [a] [b]

	1970	1975	1980	1981	1982	1983	1984
Oil [c]							
Value *(million rubles)*	616.3	2,142.6	5,909.1	7,793.4	9,103.5	10,492.5	12,093.0
Quantity *(million tons)*	40.29	63.28	79.77	80.11	71.77	69.8	71.5
Unit value *(rubles per ton)*	15.3	33.9	74.1	97.0	126.8	150.3	169.1
Gas							
Value *(million rubles)*	NA	267.0	1,658.1	2,194.7	2,834.2	3,499.5	3,844.2
Quantity *(billion cubic meters)*		11.29	29.48	29.81	31.75	32.06	34.1
Unit value *(rubles per thousand cubic meters)*		23.6	56.2	73.6	89.3	109.2	112.7
Coal							
Value *(million rubles)*	167.3	456.5	646.8	765.5	838.3	924.3	969.9
Quantity *(million tons)*	13.349	15.509	17.96	17.55	17.79	17.85	17.93
Unit value *(rubles per ton)*	12.5	29.4	36.0	43.6	47.1	51.8	54.1
Electricity							
Value *(million rubles)*	43.5	145.8	379.2	417.8	462.9	516.5	567.8
Quantity *(billion kilowatt hours)*	4.36	9.76	16.47	17.08	17.24	17.55	18.79
Unit value *(rubles per thousand kilowatt hours)*	10.0	14.9	23.0	24.5	26.9	29.4	30.2
Iron ore							
Value *(million rubles)*	272.8	452.4	408.7	458.0	468.4	490.0	520.3
Quantity *(million tons)*	31.69	38.06	36.62	32.96	31.96	31.76	33.4
Unit value *(rubles per ton)*	8.6	11.9	11.2	13.9	14.7	15.4	15.6
Passenger cars							
Value *(million rubles)*	70.9	241.6	321.2	154.7	158.5	145.3	175.5
Quantity *(thousand units)*	67.0	198.4	191.5	82.4	80.3	67.0	80.9
Unit value *(rubles per unit)*	1,051	1,218	1,667	1,877	1,974	2,167	2,169
Cotton fiber							
Value *(million rubles)*	219.4	346.6	452.8	499.6	509.9	504.8	506.7
Quantity *(thousand tons)*	330.6	394.9	431.5	434.1	435.4	420.7	408.1
Unit value *(rubles per hundred tons)*	664	878	1049	1151	1171	1200	1242

[a] Quantities are estimated after 1975 for oil, coal, and gas.
[b] Source: Soviet and East European foreign trade statistics and CIA estimates.
[c] Includes crude and products; the unit value is higher than the price of crude oil.

25X1

East European Exports

Machinery and industrial consumer goods—the mainstays of Eastern Europe's exports to the USSR—grew at a fast clip through most of the 1970s. Several years of sluggish machinery deliveries were followed by large boosts during 1982-84 as the East Europeans stepped up exports to cover the rising prices on Soviet goods and to meet Moscow's demand for more balanced trade. Machinery accounts for 70 percent of the region's gains in exports to the Soviets. Deliveries of consumer goods and food also rose in 1984, probably as a result of Soviet demands for more of these goods. [redacted]

Machinery
The expansion in Eastern Europe's machinery exports reflects the fact that machinery is what the East Europeans are best able to supply. Moreover, Moscow apparently concluded that, although not up to Western standards, East European machinery is easier to assimilate into the Soviet economy than Western machinery. [redacted]

All East European countries have made significant gains, and virtually every machinery category has shown rapid growth. The value of exports rose by 50 to 85 percent in the areas of metalworking equipment, machinery for food and light industries, power equipment, and railroad rolling stock. Receipts grew by 20 to 40 percent for exports to the electrical-engineering, agriculture, and shipping industries. [redacted]

Intermediate Goods
East European exports of these products—metals, chemicals, and other semimanufactures—make up about 7 percent of the value of deliveries to the Soviets. These goods are often comparable in quality to products in the West. After stagnating in real terms in 1981 and 1982, exports of intermediate products expanded by more than 25 percent in 1983 and 6 percent in 1984 in these ways:

- Poland nearly doubled its volume of exports in 1983 with increased deliveries of minerals, rolled ferrous metals, paints and varnishes, and chemical products.

- Hungary doubled exports during 1983-84 with larger deliveries of pesticides and ferrous metals.

- Czechoslovakia, by far the largest supplier, increased deliveries more than one-third in 1983 by increasing exports of ores, minerals, and rolled ferrous metals, but exports leveled off in 1984. [redacted]

25X1

Food and Consumer Goods
Exports of food and consumer goods to the Soviets account in 1983 for more than 5 percent and nearly 20 percent of the value of exports, respectively. The volume of food exports from the region rose steadily from 1978 to 1982 before dropping by 6 percent in 1983 after poor harvests in Eastern Europe in 1982 and 1983. Bumper harvests in 1984 allowed deliveries to expand by roughly 6 percent as follows: 25X1

- Hungary's exports slumped by 16 percent in 1983 after rising by an average of 18 percent annually during 1979-82. [redacted] Exports of meat and wheat, for which the Soviets generally pay hard currency, dropped sharply: meat from 262,000 to 236,000 tons, and the value of wheat exports by more than one-half to 56 million rubles. In 1984 Hungary's grain deliveries increased by nearly two-thirds, but exports of meat continued to decline, falling by roughly one-third to only 161,000 tons. With Hungarian meat exports to other markets slightly higher in 1984, the drop in deliveries to the USSR may reflect Hungarian refusal to sell the meat for soft currency. 25X1 25X1 25X1

- Romania's food exports fell by almost one-half during 1982-83. Romania recovered some lost ground in 1984 with large boosts in meat exports, but overall deliveries remained far below 1981 levels.

Table B-4
East European–Soviet Trade in Machinery, 1980 and 1983 [a]

Million rubles
(except where noted)

	East European Exports		Percent of USSR Imports		East European Imports		Percent of USSR Exports	
	1980	1983	1980	1983	1980	1983	1980	1983
Metalworking equipment	438.8	776.6	54	58	200.6	176.5	81	78
Power equipment	270.8	434.7	70	60	328.5	463.1	37	41
Electrical engineering equipment	434.5	536.2	78	74	89.8	95.9	69	72
Mining equipment	40.2	157.1	40	50	77.0	53.8	37	19
Oil drilling equipment	78.1	253.3	31	20	60.0	66.3	32	25
Food industry equipment	287.9	471.1	63	71	25.7	18.2	22	16
Light industry equipment	342.6	635.8	87	92	83.8	54.9	54	57
Chemical industry equipment	270.9	471.1	63	71	25.7	18.2	79	67
Road building equipment	125.6	226.4	44	43	180.0	129.0	79	67
Instruments and laboratory equipment	227.7	402.0	69	72	70.5	77.0	79	77
Agricultural machinery	722.2	939.6	94	91	152.8	168.0	76	71
Railroad rolling stock	548.5	948.5	95	96	184.1	50.8	81	56
Ships and marine equipment	796.7	988.3	64	49	69.8	37.3	50	32
Trucks					290.1	95.0	59	23
Spare parts for trucks					184.9	182.0	63	37
Spare parts for car					148.9	206.0	74	74
Passenger cars (1,000 units)					191.5	67.0	58	28

[a] Source: Soviet foreign trade statistics.

[redacted] 25X1

- Bulgaria boosted food exports by 13 percent during 1982-83 after deliveries had dropped 4 percent the previous year. Bulgaria's increased exports, in the face of poor harvests, may have resulted from Soviet pressure. [redacted] 25X1

  [redacted] 25X1

  Bulgaria increased exports by 3 percent in 1984 with expanded deliveries of fruits and vegetables. [redacted]

Eastern Europe's real exports of consumer goods—stagnant during 1979-81—jumped by 15 percent in 1982 with expanded deliveries by all countries except for Romania. Exports for the region fell nearly 4 percent the following year, largely because of reduced exports from Poland and Hungary. Both boosted exports by 15 to 18 percent in 1982 but slacked off by 18 and 10 percent, respectively, in 1983 with reduced deliveries of clothing, fabrics, and footwear. Bulgaria and East Germany increased deliveries in 1983, while those from Hungary and Romania fell slightly. [redacted] 25X1

A 10-percent increase in Eastern Europe's consumer goods exports in 1984 answered Moscow's calls for more of these goods. Czechoslovakia and Bulgaria boosted deliveries by 11 to 20 percent with increased exports of clothing, furniture, medicine, and cotton fabric. Polish and Hungarian exports recovered from their slump in 1983 with 10 to 15 percent growth, while East Germany—the largest exporter—had a 4-percent increase. Romanian exports stayed constant. [redacted] 25X1

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