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THE USSR AS A MARKET FOR THIRD WORLD EXPORTS

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The USSR As A Market For Third World Exports

Introduction

It is now some 16 years since the Soviet Union shifted its tactics toward the Third World away from exclusive emphasis on subversion toward a more sophisticated approach which included economic and military trade and aid. Over this period, the USSR has shown a growing awareness of the potential of foreign trade as an instrument of foreign policy and an increasing skill in using it for international political objectives.

At the same time, Soviet leaders have become more aware of the purely economic or commercial benefits of international trade. This awareness has been paralleled in revised ideological pronouncements concerning the role of international trade. The unveiling of the 1966-70 Five-Year Plan, in particular, was accompanied by official statements which essentially accepted the traditional Western principle of comparative advantage as a foundation stone of international exchanges and were silent on the traditional Communist principle of autarky.

A relevant quote from *Pravda* (20 Feb 1966) is as follows:

"In order to use more fully the advantages of the international division of labor, of the rise in the economic effectiveness of external trade, and to better satisfy the Soviet peoples' demands in trade, provision is being made for:

....

Improvement in the structure of imports by importing primarily those types of raw materials, materials, and articles whose production inside the country entails greater costs and capital investment..."

The USSR, then, has had two motives for increasing its trade with the Third World:

1. A political motive, that is, the use of trade as a tactic to gain entry into Third World countries and hopefully establish a strong enough position to influence their policies, and

2. An economic motive, primarily to decrease production costs and improve the efficiency of resource allocation, but also to improve consumer welfare.

[redacted]

Overall Trends

1. For the decade of the 1960s, Soviet-Free World trade increased faster with the Third World than with the developed countries. Growth, however, was quite uneven, averaging 14% a year between 1959 and 1965 and stagnating thereafter until 1969, when it moved ahead dramatically, by about 25% (see Table 1). At the end of the decade (1969) the USSR provided a market for 2.1% of the Third World's exports, compared to 1.8% in 1959, as is shown below:

	Billion US $	
	1959	1969
Global less developed country exports	27.2	52.1
Less developed country exports to the USSR	0.5	1.1
Soviet share of the less developed country exports	1.8%	2.1%

2. The Industrial West* remains the predominant importer of Third World goods, usually taking from 75% to 80% of the total. Soviet purchases from the Third World have been concentrated in a relatively small number of countries, primarily in South Asia and in North Africa and the Near East. A dozen less developed nations account for four-fifths, and the United Arab Republic (UAR), India, and Malaysia together for one-half of total Soviet imports from the less developed countries. In addition to the countries shown in Table 2, Soviet imports from Syria should be mentioned, since in 1969 Syria exported over $37 million to the USSR.

3. In spite of the very low percentage of total Third World exports which flow to the USSR, the Soviet Union is an important export market for several of these countries. For two of them,

* *The Industrial West includes Austria, Canada, Denmark, the European Economic Community (EEC), Japan, Norway, Sweden, Switzerland, the United Kingdom, and the United States.*

Table 1

Soviet-Free World Trade a/

Million US $

Year		Total	Developed Countries	Less Developed Countries	Unspecified
1960	Exports	1,352	983	338	31
	Imports	1,650	1,080	564	6
1961	Exports	1,677	1,069	498	110
	Imports	1,681	1,093	579	9
1962	Exports	2,125	1,115	560	450
	Imports	1,890	1,283	605	2
1963	Exports	2,173	1,218	752	203
	Imports	2,072	1,400	665	7
1964	Exports	2,276	1,282	774	220
	Imports	2,393	1,734	659	0
1965	Exports	2,618	1,438	911	269
	Imports	2,448	1,601	845	2
1966	Exports	2,968	1,711	889	368
	Imports	2,649	1,742	906	1
1967	Exports	3,275	1,886	966	423
	Imports	2,591	1,782	806	3
1968	Exports	3,500	2,051	952	497
	Imports	3,043	2,144	885	14
1969	Exports	3,973	2,230	1,170	573
	Imports	3,631	2,494	1,118	19

a. Data are derived from official Soviet foreign trade handbooks and from data reported by the less developed countries.

Table 2

Soviet Imports from Major Trading Partners Among the Less Developed Countries

Value in Million US $

Country	1966 Value	1966 Percentage Change b/	1967 Value	1967 Percentage Change b/	1968 Value	1968 Percentage Change b/	1969 a/ Value	1969 a/ Percentage Change b/
Total	*906*	*7*	*806*	*-11*	*885*	*10*	*1,118*	*26*
Of which:								
India	191	2	181	-5	183	1	221	21
UAR	150	-8	145	-3	171	18	228	34
Malaysia	126	11	97	-23	100	4	122	21
Other								
Iran	19	7	31	58	40	31	56	41
Afghanistan	19	-7	21	13	31	46	31	0
Turkey	19	-1	28	48	30	8	30	0
Argentina	107	49	23	-78	29	24	26	-11
Brazil	31	-7	35	13	28	-20	49	74
Algeria	6	55	16	175	28	71	62	122
Greece	30	5	29	-2	25	-15	29	17
Ghana	24	-21	26	6	20	-21	15	-25
Indonesia	31	-4	24	-21	19	-21	24	25

a. *Preliminary.*
b. *Percentages were computed from unrounded data.*

Afghanistan and the UAR, the USSR is the most important market. The less developed countries who sold a significant share (5% or more) of their total exports to the USSR in 1968 are shown in Table 3.

Table 3

Soviet Share in Selected Less Developed Countries' Total Exports 1968

Country	Percent	Country	Percent
Afghanistan	35	Malaysia	8
UAR	27	Ecuador	7
Mali	17	Ghana	6
Syria	11	Turkey	6
Yemen	11	Greece	5
India	10	Guinea	5

Commodity Composition

4. The general commodity composition of Third World exports differs little as between Soviet and Industrial Western markets. The larger share of raw materials in Western purchases is accounted for by crude oil, which in 1968 made up almost 30% of Western purchases but only a negligible part of the USSR's. Soviet purchases are concentrated in a much narower range of goods than Western imports. Twelve commodities, as shown in Figure 1, accounted for almost two-thirds of all Soviet imports from the less developed countries in 1968. By contrast, two-thirds of the total of the Western purchases were distributed over 40 commodities. Statistics are shown in Table 4.

5. For most of the major Third World export commodities the Industrial Free World nations offer a far larger market than the USSR. The USSR, however, does account for a substantial share of total Third World exports of several commodities. Soviet rice purchases from the less

Figure 1

Soviet imports from the Less Developed Countries and distribution by major commodities in 1968

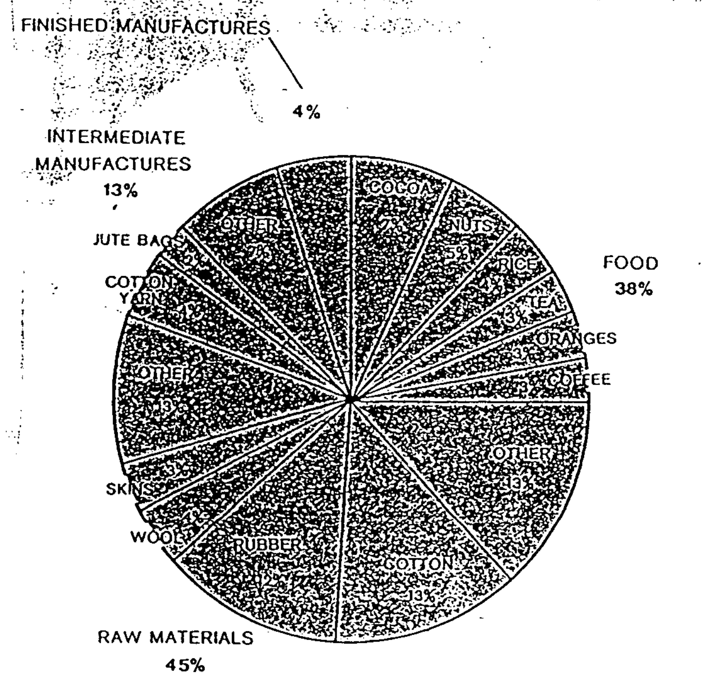


Table 4

Commodity Composition of the Less Developed Countries' Sales, by Major Commodity Group a/
1968

Percent

Commodity Group	USSR	Free World Industrial Countries
Raw materials	45	57
Food	38	25
Intermediate manufactures	13	10
Finished manufactures	4	8

a. Based on imports by the USSR and member countries of the Organization for Economic Coordination and Development (OECD).

developed countries have been nearly as great as purchases by the Industrial West, and Soviet rubber imports were about one-fifth of those of the Industrial Western countries.

6. Soviet purchases of individual commodities generally are heavily concentrated in a few less developed countries, and in some instances the USSR represents the major market. For example, the USSR took most of Afghanistan's and Syria's wool exports and one-half of India's sheepskins and the UAR's cotton yarn exports in a recent year (see Table 5).

Table 5

Soviet Share of Selected Third World Exports
1967

Value in Million US $

Country	Commodity	Value: Total	Value: USSR	Soviet Share (Percent)
Afghanistan	Wool	4.9	4.9	100
India	Skins	60.7	30.1	50
	Jute bags	80.3	31.8	40
Syria	Wool	5.6	4.0	71
Turkey	Raisins	22.7	5.5	24
UAR	Cotton yarn	70.4	35.1	50
	Rice	68.5	26.2	38

7. Two significant shifts have occurred in the composition of Soviet imports during the past several years. The most significant has been the increasing share of finished and intermediate manufactures, which in 1968 amounted to $150 million, or 17% of Soviet imports from the Third World. This compares with $19 million, or 3% in 1962. The trend toward increased imports of processed as opposed to raw commodities is evident in Soviet

purchases of Egyptian cotton products, the makeup of which has moved from raw cotton to yarn, cloth, and finished clothing. So far, however, growth of Soviet purchases of Third World manufactures has been confined to a handful of countries. In 1968, about 95% of such imports came from India, the UAR, Iran, and Pakistan. Imports of manufactures from India alone -- a significant portion of which came from Soviet-built factories facing severe problems in disposing of their output -- accounted for 51% of the total.

8. A second significant change has been the rapid growth of Soviet food imports from these areas, particularly oranges, cocoa, coffee, and tea. Foods made up 38% of all Soviet imports from the Third World in 1968, compared with only 12% in 1958. Quantities imported, especially tropical products, appear to be still far below latent Soviet consumer demand, as will be discussed shortly. The USSR also is in the early stage of substantially raising its imports of crude oil and natural gas from several countries in North Africa, the Near East, and South Asia. In 1969, Soviet crude oil imports from the Third World amounted to $20 million and were supplied by two countries: Algeria and the UAR. Afghanistan began supplying the USSR with natural gas, which reached a value of $9 million in 1969 and is expected to continue increasing; arrangements to develop Iranian sources of gas for export to the USSR are well under way.

Factors Affecting Soviet Purchases

Alternative Sources of Supply

9. Most of the goods imported by the USSR from less developed countries play a role in supplementing Soviet production of the same goods. Of total Soviet imports from the Third World, some three-fourths, by value, are commodities which are produced in greater quantities by the USSR. Very few Third World imports provide as much as half of total Soviet requirements of any commodity.

10. For finished and semifinished goods such as shoes, clothing, and cotton fabrics, Eastern Europe is a far larger supplier to the USSR. In other instances the Industrial West is the primary

source. The Third World does supply the USSR with most of its imports of some agricultural products and a few industrial raw materials. Table 6 shows these data for 1968.

Table 6

Share of Selected Soviet Imports
Supplied by the Less Developed Countries
1968

Import	Percent	Import	Percent
Coffee	100	Jute	97
Cotton	100	Oranges	97
Jute packing	100	Tea	97
Natural rubber	100	Cotton yarn	96
Oilcake and meal	100	Vegetable oils	92
Peanuts	100	Jute bags	86
Cocoa	98	Raisins	85
Skins	98	Nuts and almonds	84
Black pepper	97	Rice	77

11. Finally, for a number of major export commodities of the less developed countries, the USSR also is a significant exporter. For example, in 1968, the USSR imported $67 million worth of cotton ($117 million including cotton yarn, fabrics, and clothing) from the UAR, while exporting raw cotton valued at $404 million, and $49 million in cotton fabrics. The same relationship holds for vegetable oils, wool, oilcake, and corn. The greater volume of Soviet exports in these cases strongly suggests that such imports play no strategic role and an insignificant economic one.

12. Certain Soviet imports from the less developed countries, now most importantly rubber and tin, but also oil, natural gas, jute, and some other primary products, help to meet the raw material requirements of the Soviet industry. But the bulk of what these countries have available for export (with the important exception of oil) is foodstuffs and agricultural raw materials which are of high value from the standpoint of consumer

welfare, but of essentially no strategic or industrial growth value. Despite the traditional higher priority accorded to industrial development, only about one-fourth of Soviet imports from the less developed countries in 1968 can clearly be identified as of industrial value, whereas over 70% are obviously for consumption by the general public (see Table 7).

Table 7

Soviet Imports from Free World
Less Developed Countries in 1968

	Million US $	Percent
Total	*885*	*100*
Industrial	236	27
POL and gas	11	1
Ores and minerals	18	2
Metals	22	3
Chemicals and dyes	6	1
Rubber	116	13
Timber and wood products	4	Negl.
Essential oils	3	Negl.
Industrial fats and oils	7	1
Bags and packing material	33	4
Other	16	2
Consumption	625	71
Textile fiber and yarn	201	23
Hides and skins	38	4
Tobacco	15	2
Food	323	37
Finished consumer goods	48	5
Other	24	3
Concentrated fodder	7	1
Unspecified	17	2

Soviet Market for Tropical Foods

13. In spite of the rapid growth in Soviet imports of food products from the less developed

countries, per capita consumption of tropical foods in the Soviet Union, is far lower than in West European countries or even in the advanced countries of Eastern Europe, such as Czechoslovakia. These difficulties apparently do not reflect any lack of demand on the part of Soviet consumers, who quickly buy out stocks of tropical foods whenever they appear in retail outlets. We have noted in past studies that there appears to be a high elasticity of demand for quality food in the Soviet Union.

14. The latent demand by Soviet consumers for tropical food products can be roughly estimated by applying income elasticities of demand which have been calculated in Western countries where consumers are free to respond to a rise in income with respect to the purchase of all goods and services. In effect, this is a measure of consumer response in the absence of government imposed rationing. Using this technique, wide gaps appear between actual and potential consumption of tropical foods in the USSR at current income levels. Actual levels of per capita consumption in the USSR, France, and Czechoslovakia are shown in Table 8 for selected imports, and potential Soviet demand is shown in Table 9.

Table 8

Estimated Per Capita Consumption
of Selected Commodities
1968

Kilograms Per Capita

Product	USSR	Czechoslovakia	France
Bananas	0.06	1.24	8.86
Cocoa	0.46	1.21	1.23
Coffee	0.14	1.05	4.90
Oranges	0.82	2.81	14.67

15. These data indicate the decisive influence of the USSR's longstanding policy of using its limited hard currency export earnings primarily to purchase industrial equipment and technology and other high priority goods while restricting imports

of Free World consumer goods to those quantities that can be obtained through balanced bilateral trade. The USSR has not only allowed the gap between imports and latent demand to continue, but, when expedient, it has allowed the gap to grow. This clear lack of concern with meeting potential demand is illustrated by the failure to seek other sources of supply for bananas following the cutoff in imports from North Vietnam, its major supplier, after 1965. A similar decline, which occurred in total Soviet coffee purchases after 1965, is traceable to a Soviet decision to curb imports from Brazil so as to reduce its import surplus with that country. A large gap between consumer demand and actual imports of tropical foods is likely to persist so long as Soviet leaders give a low priority to what they regard as luxury goods in allocations of foreign exchange.

Table 9

Actual and Potential Soviet and Czechoslovak Per Capita Consumption of Selected Products a/
1968

		Per Capita Consumption (Kilograms)			
		USSR		Czechoslovakia	
Product	West European Income Elasticity of Demand	Actual	Potential	Actual	Potential
Bananas	0.35	0.06	6.77	1.24	8.20
Cocoa	0.6	0.46	0.73	1.21	1.07
Coffee	0.5	0.14	3.25	1.05	4.38
Oranges	0.6	0.82	8.75	2.81	12.79

a. Income elasticities are those computed for Western Europe by Bela Balassa, and appear in his Trade Prospects for Developing Countries, *Homewood, Illinois, 1964. The norm used for per capita consumption is France in 1968; Soviet and Czechoslovak potential consumption is defined as what West European consumption would be at the lower Soviet and Czechoslovak per capita income. The income elasticity of demand for imports is a simple ratio, measuring the change in imports to a change in disposable income.*

Bilateral Clearing Versus Hard Currency Settlements

16. An additional factor which has restricted the growth of Third World trade with the USSR has been the Soviet practice of insisting on bilateral clearing arrangements. The growth pattern of Soviet imports from the Third World reflects the importance that Soviet authorities attach to minimizing hard currency outlays. Since 1960, almost the entire growth in Soviet imports from the less developed countries has been concentrated in states with which the USSR had clearing agreements, while the USSR's hard currency purchases from these areas remained virtually stagnant. By 1969 the 20-odd less developed countries whose trade with the Soviet Union was settled via clearings were supplying about two-thirds of all Soviet imports from the Third World.

17. From the Soviet standpoint, bilateral clearing has the obvious advantage of facilitating the payment of Soviet purchases with Soviet goods; hence, fluctuations in exports or imports with a clearing partner generally will not result in a claim on the Soviet hard currency reserves. In contrast, Soviet experience in hard currency settlements with Third World countries has shown that, as a Soviet economist candidly observed,

> The exchange they earn from exports to the USSR goes partly toward paying their hard currency obligations to capitalist states, and not for increased purchases from the USSR.

18. For Third World countries, bilateral clearing trade with the USSR means tying a portion of their exports to purchases of Soviet goods. Hence, countries in a strong global trading position, like the major oil- or rubber-producing states, generally are not among the USSR's clearing partners. Indeed, almost all of its clearing partners are countries which use this means to dispose of commodity surpluses over and above sales on Free World markets.

19. Among the developing countries which turned to the USSR in the face of more fundamental dislocations in their global trade are the UAR and Afghanistan. Both nations lost Western markets at the same time as

their agricultural production was increasing. The severe fall in demand and prices for Egyptian cotton at the end of the Korean War boom in 1952 was followed in 1955 by Western withdrawal of credit for construction of the Aswan Dam, and in 1956 by the UK and French restrictions on Egyptian cotton and their blocking of Egyptian foreign bank accounts. As a result, the initial Soviet clearing agreements provided a welcome outlet for mounting UAR cotton stocks. Afghanistan has found itself similarly squeezed into Soviet markets by Pakistan's cutting off Afghanistan's transit trade with Western markets.

20. Although by far the larger and more dynamic part of Soviet purchases from the Third World is settled via clearing accounts, the USSR pays out between $200 million and $300 million a year in hard currency for imports from less developed countries. The USSR's annual payments deficit in this trade has averaged around $100 million since 1960. It is incurred almost entirely with countries from which the USSR purchases such essential commodities as rubber, tin, and occasionally wheat. Purchases of these three commodities accounted for some 60% of total Soviet hard currency imports from the Third World between 1966 and 1968. If the five hard currency countries exporting tin, rubber, and wheat to the USSR are not included, the Soviet Union's hard currency deficit with the Third World becomes a surplus of roughly $50 million for the period.

21. With its remaining hard currency trading partners in the Third World the USSR either maintains a virtual payments balance or, as in its trade with Iraq and Kuwait, a payments surplus. About one-third of the Soviet surplus with Iraq resulted from hard currency payments for Soviet military aid deliveries.

22. Soviet officials have asserted that the USSR will increase its purchases from those less developed countries which raise their purchases of Soviet goods. The evidence suggests that Soviet exports and imports with each of its Third World partners have tended strongly to move in the same direction: during 1965-68, Soviet exports and imports moved in the same directions with four-fifths of its less developed trading partners. Moreover, this trend was equally true of both rising and falling trade. Of 24 countries that increased their purchases of Soviet goods in this period, Soviet purchases from 17 of them also rose;

of the 30 whose purchases of Soviet goods fell, Soviet imports declined from 24 of them.

Limited Less Developed Countries' Export Availabilities

23. A third factor which limited Soviet imports from Free World less developed countries during the 1965-68 period was a series of production shortfalls in a number of Third World countries who were principal trading partners of the USSR. These shortfalls resulted from internal domestic problems, including drought, disease, and mismanagement. Some of the major countries and commodities are shown in Table 10. The table reveals that exports from these less developed countries fell, not only to the USSR, but to other countries as well. However, the effects were particularly severe in the case of the USSR since these countries accounted for about 60% of Soviet imports from the Third World, and had accounted for the major share of import growth up to that time. However, if the USSR had wished to do so, it could have imported identical or nearly identical commodities and foodstuffs from other less developed countries. Its failure to do so is a further reflection of the bilateral nature of this trade.

24. In 1969, however, Third World exports, particularly of the USSR's dominant trading partners in this group, increased dramatically. Preliminary data indicate that Soviet purchases from the less developed areas rose by about $230 million -- 26% above the 1968 level -- to a record $1.1 billion. This sharp rise was concentrated in six of the USSR's major Third World trading partners, and the UAR, India, and Algeria together accounted for over half the total gain. In the case of Algeria, virtually all of the $34 million increase occurred in Soviet wine purchases. The $22 million rise in imports from Malaysia, the only hard currency trading partner to share significantly in the upsurge in Soviet imports, reflected higher world rubber prices rather than a greater volume of purchases. Growing Soviet oil purchases accounted for only $15 million of the $57 million increase in Soviet imports from the UAR. An increase in a wide variety of commodity imports seems to account for most of the upsurge.

Table 10

Production and Exports of Selected Commodities from Individual Less Developed Countries

Country and Commodity	Thousand Metric Tons			
	1964	1965	1966	1967
Afghanistan: cotton				
Production	26	25	21	19
Exports	21	16	17	14
Of which:				
To the USSR	15	14	9	11
Burma: rice				
Production	8,508	8,055	6,636	7,714
Exports	1,344	1,348	1,100	544
Of which:				
To the USSR	132	106	3	33
Ghana: cocoa				
Production	428	581	416	381
Exports	388 a/	502	398	335
Of which:				
To the USSR	40	67	54	55
India: tea				
Production	372	366	376	382
Exports	211	199	179	214
Of which:				
To the USSR	23	29	17	20
Syria: cotton				
Production	176	180	141	127
Exports	147	122	164	114
Of which:				
To the USSR	19	21	24	18
UAR: cotton				
Production	504	521	455	437
Exports	291	330	348	296
Of which:				
To the USSR	75	107	98	71

a. *Down substantially from 1963 level.*

Aid Repayments

25. One additional major factor affecting Soviet trade with the less developed countries has been the so-called "aid and trade" program, and most recently the effect of repayments on assistance granted earlier to the Third World by the USSR. Since the early 1960s Soviet economic and military aid has been an important stimulus to the growth of the USSR's Third World trade. This has been particularly true for Soviet exports, of which roughly 30% to 50% have consisted of economic aid deliveries. Soviet imports, too, have been augmented by repayments in goods for earlier economic and military aid deliveries. As shown in Table 11, the volume of repayments has grown from $38 million in 1960 to $190 million in 1968, when repayments accounted for well over one-fifth of total Soviet imports from the less developed countries. Indeed, repayments in goods grew at

Table 11

Third World Aid Repayments to the USSR a/

Year	Million US $
1960	38
1961	42
1962	79
1963	100
1964	134
1965	127
1966	154
1967	154
1968	190

a. Excluding repayments made in hard currency, which equaled one-third the repayments made in goods.

an average annual rate of 22%, while total Soviet imports from these areas grew at a rate of only 6% per year. Long-term debt service payments accounted for no more than 25% of the overall 1969 increase in Soviet imports, although they made up a far larger share -- well over half -- of the increase in imports from India.

25. Repayments, however, have not always led to a growth in total Soviet imports from each debtor country. Between 1964 and 1968, Soviet imports from seven less developed countries, including several of its major Third World trading partners, either failed to show any appreciable growth or actually declined, in spite of rising aid repayments from each of the seven. These countries are Afghanistan, Burma, Ceylon, Greece, India, Pakistan, and Sudan. The growing aid repayments from each country were more than offset by such factors as reduced export availabilities and a preference for hard currency sales.

Recent Trade Promotion Activity

26. The USSR has not taken any dramatic new trade initiatives with the Third World in the past few years. It has been carrying on low-keyed activity aimed at promoting an expansion of trade with a number of less developed countries. Most such activity has been along traditional Soviet lines: concluding formal trade agreements which set higher nonmandatory targets for purchases by each party; seeking preferential treatment for Soviet goods in exchange for larger Soviet purchases; and generally trying to formalize bilateral trade and payments arrangements.

27. In addition to these traditional approaches, the USSR has been alert to opportunities for making spot purchases of products from countries facing critical market problems. In 1969 and early 1970 it signed spot agreements valued at over $50 million, most of which were settled on clearing account, to cover the purchase of distressed commodities, including stocks of old cotton from Sudan, low-grade Ecuadorean bananas, and a glut of Algerian wine. All of these commodities would otherwise have only been salable at substantial discounts, if at all. The USSR also has elected to undertake several economic aid projects which are particularly likely to lead to expanded Soviet trade in the future: its participation in oil and gas development in Iran and Iraq is tied to future Soviet purchases of these products. Other economic ties promoted by the USSR, including recently completed rail links with Iran and arrangements for the repair and construction of Soviet ships by the UAR, will also contribute to intensified trade in the future.

Outlook for the 1970s

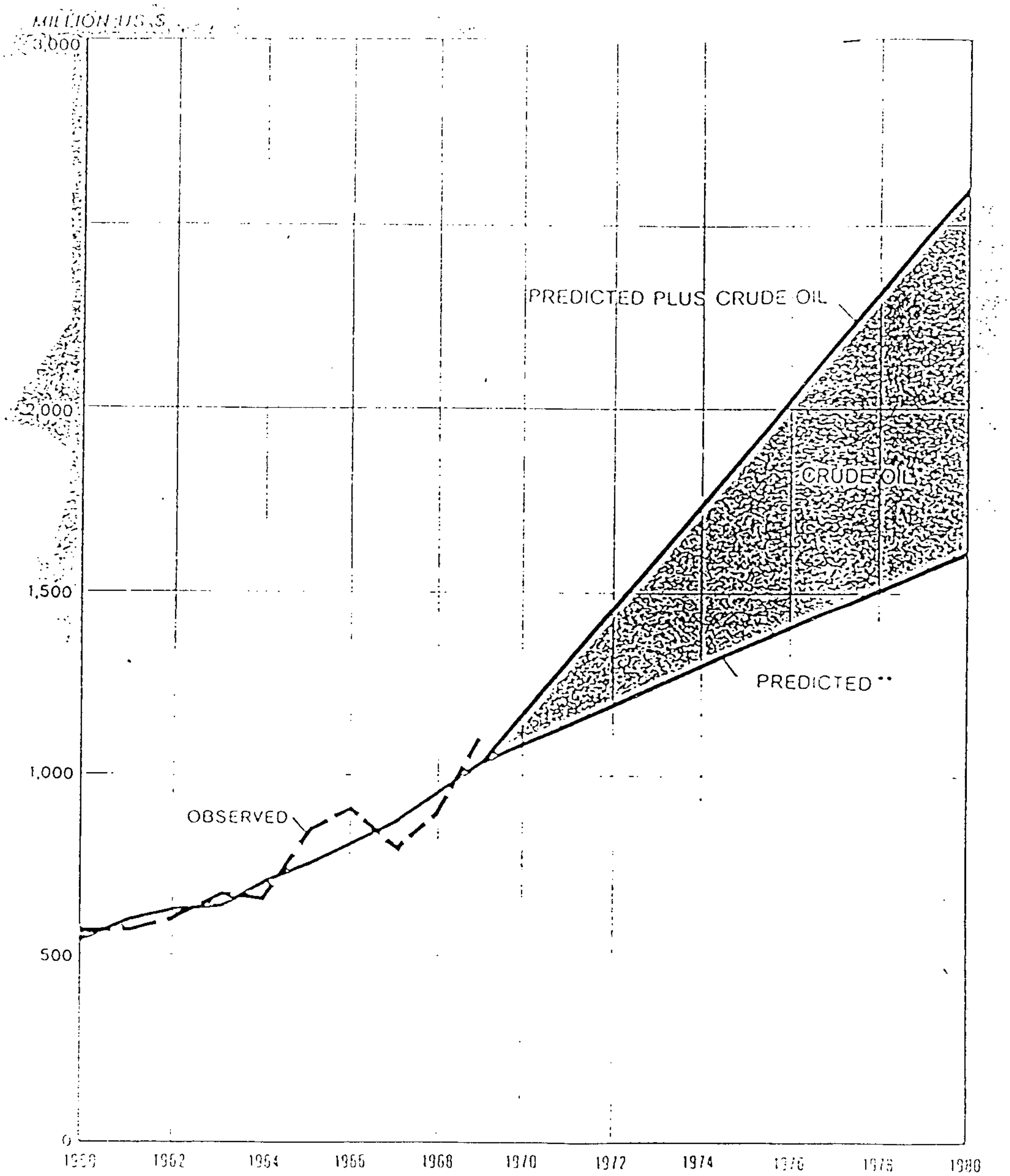
28. In considering the possible range of expansion of Soviet imports from the Third World over the decade of the 1970s, we can start with a projection of global exports by the less developed countries. Assuming that the less developed countries' total exports continue the same rate of growth during the next decade that they achieved during the 1960s (6.7% annually), their total exports would reach about $106 billion in 1980. If their exports to the USSR continue to account for the same share of that growth as in 1969 (2.1%), they would reach $2.2 billion in 1980. However, statements at the recent meeting of the Trade Development Board of the UN Conference on Trade and Development indicate a substantial reduction in the rate of growth of the less developed countries' global exports -- possibly to about 5% annually. At this lower growth rate, in 1980 the less developed countries' global exports would reach $89.1 billion and a 2.1% Soviet share would amount to $1.9 billion. We can generalize the results of this simple estimating technique as a level of imports of $2 billion by 1980, or perhaps somewhat more.

29. A second method of projecting the possible level of Soviet imports from the Third World starts with a projection of Soviet GNP. The growth in the USSR's gross national product provides a direct basis for projecting Soviet imports from the less developed countries. The growth in Soviet exports to the less developed countries over the past decade closely correlates with the growth in the GNP. As an increasingly dominant share of less developed countries' exports to the USSR being paid for under clearing agreements, the growth in Soviet exports has produced a corresponding growth in imports from the less developed countries in repayment.

30. Therefore, the rise in Soviet GNP can be looked upon as producing a growth in effective Soviet demand for imports from the less developed countries. The future growth in those imports can be estimated by applying the Soviet income elasticity of demand for them that prevailed during 1960-69 to the expected value of future Soviet GNP. During that period, imports from the less developed countries increased at a rate 88% as rapid as that of GNP (see Figure 2). Our recent estimates are that Soviet GNP will increase

Figure 2

Soviet Imports from Less Developed Countries ...



* Projection based on estimated import requirement for [illegible]

** Projection based on 4.5% annual increase in Soviet [illegible] and a Soviet income elasticity [illegible] and for imports from the Third World of [illegible] at a rate of 4.5% annually in the 1970s. If the Soviet income elasticity of demand for less developed countries' imports (0.88) holds during the next decade, those imports would reach only $1.6 billion in 1980, rather than the higher estimates of $1.9 to $2.2 billion based on a constant share of less developed countries' global export projections.

31. However, a potentially very important new factor is the forward estimate of Soviet oil imports from the Middle East and North Africa. Our recent estimates indicate the USSR will have an increasing requirement for imported oil, and our "best estimate" is that the value of these imports will reach about $1 billion by 1980. There are, of course, a number of factors which could move this estimate downward or upward by wide margins. If the bulk of the growth in petroleum imports is supplementary to the estimated growth of imports based on the projected Soviet GNP, the new estimated level of Soviet imports from the less developed countries would rise to about $2.6 billion in 1980. This addition would more than double the projected annual rate of growth of Soviet imports from the less developed countries between 1969 and 1980 -- an increase in the rate from 4.0% to 8.7% annually. Using our earlier calculation that "normal" Soviet imports from the less developed countries could amount to about $2 billion by 1980, the supplementary oil imports would raise the grand total to $3 billion. This would raise Soviet takings of less developed countries' products to about 3% by 1980. While 3% is a small figure, the Soviet Union would be a much more significant trading partner of individual Middle East countries, most prominently Iran.