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Soviet-Western Economic Ties

1. Soviet Stake in Economic Ties with West

-- During the 1970s the USSR looked increasingly to the West to help bolster a faltering economy.

-- Share of trade with non-Communist countries climbed from less than 35 percent of total Soviet trade in 1970 to almost 45 percent of trade turnover last year.

-- In value terms, exports plus imports jumped from less than 10 billion to more than $50 billion.

-- Purchases of grain and other farm products by the USSR have become increasingly important in the wake of agricultural failures.

- Bought nearly $9 billion worth of agricultural goods last year and will buy even more this year.

- US has been and will remain major supplier in normal circumstances

-- Also buy substantial quantities of steel products, both pipe and rolled products.

-- But Soviet leaders have given highest priority to acquisition of Western technology through legal trade, evasion of COCOM controls, and clandestine channels.

- Share of equipment imported from West is less than 10 percent of Soviet investment in new machinery but impact is large in number of key areas.

- Western drilling rigs, submersible pumps, large-diameter pipe, and pipeline equipment have played important role in Soviet oil and gas development.

- Soviets have used Western automotive technology to modernize and expand production of heavy trucks and passenger cars (Kama River plant builds trucks and engines for both civilian economy and military).

- Because of importance of semiconductors for computers and military electronics, USSR has spent hundreds of millions of dollars for Western production and testing equipment, much of it illegally.

- Soviet computers of poorer quality and in short supply, so Moscow has bought $500 million worth of computers and related equipment in past 10 years.

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- US part in supplying technology is not dominant; other countries can supply most equipment except for oil and gas industry and computers.

-- With economy strained in 1980s, USSR needs major boost in productivity to satisfy demands of consumption, investment, and defense.

- increasing imports of Western technology most certain source of productivity gains

- and as oil exports decline (and imports begin) Western credits will be needed to pay for grain and machinery.

2. <u>Western Dependence on USSR</u>

-- Developed country dependence small in aggregate; USSR accounts for only about 2% of total Western exports and imports

- Among the major West Europeans, 2.1 percent of West German exports go to the Soviet Union, 1.0 percent of UK exports go to the Soviet Union; US figure is 1.9 percent.

- USSR buys mainly grain, steel, and manufactures from West and sells oil and gas, raw materials, and semi-finished goods to the West.

-- Instability in Persian Gulf, however, has made Soviet oil and gas more attractive to Western Europe.

- Willingness to buy in on huge new natural gas pipeline project (although some second thoughts by French).

-- Although by no means in a monopoly position, the USSR is an important supplier to the West of certain strategic minerals and metals such as chromium, platinum, and palladium.

-- And for some West European countries and Japan, Soviets are major market for regions and companies.

- FRG's Mannesman built large plant specifically to service Soviet orders for large-diameter pipe.

- Japanese steel makers in 1980 signed long-term agreement to sell 1 million tons of pipe per year to USSR.

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3. Relative Vulnerabilities

-- If there were a major reduction in East-West trade, Soviets would suffer far more than West.

  - West's diversity of supplies of oil and gas and some minerals would be less; thus more dependent on Middle East and Africa.

-- USSR would not be able to sustain its livestock program.

  - Effect would be sudden.

  - Under best of circumstances living standards unlikely to improve much in the 1980s; loss of access to Western grain would be heavy blow.

-- Denial of Western technology would compound USSR's technological inferiority unless they made unexpected strides in assimilating new technology.

-- Energy shortages would be more serious than we already expect, limiting economic growth.

  - USSR lags behind US in technology for exploiting oil and gas, especially in deep structures and offshore.

  - Although Soviets have vast long-term potential, they need Western help.

-- Competition for machinery between military and civilian uses would be greatly aggravated; either investment or military programs would have to give.

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Soviet Foreign Trade in 1979

(Billion US$)

	Soviet Exports to:	Soviet Imports from:
Communist Countries	36.1	32.7
Industrialized West	19.1	20.3
Less Developed Countries	9.6	4.9

Soviet Commodity Trade with Non-Communist Countries

Exports	$19.5
Crude and oil products*	9.6
Natural gas*	1.4
Machinery and equipment	1.6
Wood and related products	1.4
Other	5.5
Imports	$21.6
Machinery and equipment	6.0
Grain**	3.7
Other agricultural goods	1.3
Steel	3.4
Other	7.2

* Soviet energy exports were 6-7 percent of West European consumption of primary energy.

** Grain imports were equal to 16 percent of Soviet grain production.

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