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SOME NEW ASPECTS OF SOVIET TRADE

WITH COMECON 1971-75

Summary: This paper gives new information from the Soviet Foreign Trade monthly on the Comecon trading plans for 1971-75. The structure of Soviet exports to Eastern Europe is to be improved by increasing the percentage of machinery delivered, but for imports consumer goods will show a faster growth. However, even in 1975 the USSR will still be importing 60% more engineering goods from Eastern Europe than it exports.

A slightly clearer picture of Comecon's trade expansion plans for 1971-75 has now been made available through an article in Vneshnyaya Torgovlya, the Foreign Trade Ministry's monthly. (1) The author is M. Loshakov, head of the Department for Trade with the European Socialist Countries. He notes that Soviet trade turnover as a whole is to grow by 33-35% in the current five-year plan period, with the main thrust being directed towards the Comecon area.

Such a policy seems likely to slow down the USSR's own trade expansion, since Comecon trade grew more slowly in 1966-70 than in 1961-65 (by 8.2% compared with 8.5% p.a.), and also more slowly than world trade as a whole. However, world market prices rose substantially in that period, whereas Comecon prices were more stable, so that the volume difference is not as great as the value figures.

Loshakov writes that the percentage of Soviet foreign trade accounted for by the East European countries was as follows:

% Share of Soviet Foreign Trade - 1966-70

GDR	15
Poland	11
Czechoslovakia	10
Bulgaria	8
Hungary	7
Rumania	4
Yugoslavia	2
Total....	<u>57</u>

However, this average figure should not be allowed to disguise the fact that the percentage of Soviet trade with the Comecon area has gradually been falling in recent years:

% Comecon Share of Soviet Foreign Trade

<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>
58.0	56.0	57.1	57.5	56.7	55.6

Loshakov provides a table to show the growth of Soviet trade with East European communist countries in 1966-70:

Soviet Foreign Trade with European "Socialist" Countries

1966-70

(million rubles)

<u>Country</u>	<u>1965</u>	<u>1970</u>	<u>1970 as % of 1965</u>
Bulgaria	1084	1817	168
Hungary	955	1480	155
GDR	2383	3295	138
Poland	1357	2350	173
Rumania	759	919	121
Czechoslovakia	1765	2193	124
Yugoslavia	300	520	173

In this list it is not surprising that Rumania is at the bottom of the growth league, but it is perhaps significant that Yugoslavia, which is only an associate member of Comecon, shares the first place with Poland.

The USSR expanded its exports of machinery and equipment to the European "socialist" countries by 80% in the 1965-70 period, whereas their deliveries of machines and equipment to the USSR increased by 37%. Consequently the balance of trade in engineering is no longer as unfavorable as it was to the USSR, but the Soviet Union still imports twice as much machinery from these countries as it exports to them. The ratio between Soviet exports and imports of engineering products changed from 1:2.69 in 1965 to 1:2.05 in 1970.

The least profitable sector of Soviet exports is the supply of raw materials. Loshakov states that the Soviet exports of fuel, raw materials and materials to the East European countries rose by 47% in 1966-70, and are expected to go up again by 27% in 1971-75. But in the latter case, the East European countries are having to invest heavily in Soviet mines and resources, through the provision of machinery, equipment, pipes and consumer goods on long-term credit to the USSR, in exchange for raw materials to be delivered in the future. It is a type of "pay now, burn later" program.

During 1966-70, the imports of industrial consumer goods into the USSR from the East European countries rose by 77%, much faster than Soviet imports as a whole. This process seems certain to continue during 1971-75.

The Soviet trade plan for Eastern Europe aims at a total turnover of 79 billion rubles in 1971-75, which means an average increase of 9.2% p.a., from the 1966-70 base. Since this rate was not attained either in 1961-65 or in 1966-70, there seems to be little reason to think that it can somehow be reached in the ninth five-year plan. For individual countries, the targets are given by Loshakov as follows:

Trade with USSR - 1971-75

<u>Country</u>	<u>Target (bill. rubles)</u>	<u>1971-75 as % of 66-70</u>
Bulgaria	12.5	160
Hungary	9.3	164
GDR	22.0	156
Poland	13.4	160
Rumania	5.3	140
Czechoslovakia	13.5	143
Yugoslavia	2.8	122

In the list above, Rumania remains at the bottom of the Comecon trade growth league, but Yugoslavia's anticipated growth is to be even smaller -- the reverse of the experience of 1966-70 in the latter case. Once again the USSR is planning to improve the payments balance of its engineering trade; so that the ratio of engineering exports to imports is scheduled to fall from 1:2.05 in 1970 to 1:1.63 in 1975. Consequently, the growth of East European consumer goods exports to the USSR seems certain to continue to be faster than in engineering products.

In electronics, the USSR expects to have a favorable trade balance during the ninth FYP; the electronics share of its engineering imports in 1975 is to be 15%, whereas it is planned to be 21% of engineering exports.

In 1971-75, less than half of Soviet imports from the East European countries (19 billion rubles worth out of about 40 billion) is to consist of machinery and equipment. This is certainly a new development, underlining the rapid expansion in the Soviet imports program of consumer goods from Eastern Europe.

Soviet exports of machinery and equipment to the East European countries are planned to be worth only 11.4 billion rubles, more than half of which will go to the GDR and Bulgaria. The proportion of heavy engineering and power station equipment in Soviet machinery exports is expected to rise, in connection with the modernization of obsolescent Comecon steel plants and fuel industries. The most novel large-scale export item from the USSR will be the Zhiguli (Fiat 124) from the Togliatti plant, a third of the rated capacity of which has now been attained.

Loshakov points with pride to an agreement between the USSR and Rumania covering the production of iron ore in the USSR in order to increase deliveries of it to Rumania. In 1970 (the last year for which figures are available here) the Soviet Union sent 4.2 million tons of iron ore to Rumania at a cost of about 8.6 rubles a ton.

But for 1972 Radio Bucharest announces that Rumania will be importing 1.1 million tons of iron ore from Algeria (2) and will supply technical aid, drills and mining equipment to Algeria in exchange. This suggests either that Bucharest is no longer satisfied with the quality and price of Soviet iron ore, or that Moscow has informed Rumania that there will simply not be enough of it available in the next few years. On the whole the former explanation seems more probable, because although the price of Algerian ore to Rumania in the new contract has not been disclosed, it is known that the USSR had to pay only about 5.3 rubles a ton for Algerian iron ore when it last bought some in 1968.(3) Even after allowing for shipping costs to Rumania, the Algerian ore still seems to be likely to be appreciably cheaper than Soviet ore, if price movements in 1971 have not altered the relationship substantially.

For the first half of 1971, Loshakov reports that Soviet trade with Eastern Europe was growing at the rate of 9.1% p.a. This is marginally below the planned annual growth rate for 1971-75, and well below the rate of growth of Soviet trade as a whole in 1970 (11%). (4)

Loshakov puts his finger on the real cause of the relatively slow growth of intra-Comecon trade when he writes:

It is important to provide conditions in which production for export to the fraternal countries, when the profit has been converted from foreign currency into the domestic currency, should not be less advantageous than production for export to other countries.

But for years past, it has been common knowledge that most Comecon countries have found it more profitable to switch their trade, wherever possible, to countries outside the Soviet-dominated grouping. Rumania's iron-ore deal with Algeria is only the latest case in point. It will certainly not be the last example of its kind, even if it is one of the most conspicuous.

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- (1) M. Loshakov, "Historic Successes, Historic Perspectives," Vneshnyaya Torgovlya, Nov. 1971, pp. 2-7.
 - (2) Radio Bucharest, 15 December 1971. The amount will increase annually to a level of 1.5 million tons in 1975. (Financial Times, 16 December 1971).
 - (3) Vneshnyaya Torgovlya SSSR za 1969 god., Moscow 1970, p. 259.
 - (4) Economic Survey of Europe, E.C.E., Geneva, N. Y., p. 137.