SOVIET TRADE AND AID: TRICKLE OR TORRENT?

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Note: The following paper is a slightly revised version of a formal statement presented at the Hearings of the Foreign Economic Policy Subcommittee of the Joint Congressional Economic Committee on December 13, 1956. The Hearings were devoted to the problems of economic growth in the Soviet bloc and the non-communist world, particularly as they may affect the economic competition between the two. In my testimony I was asked to consider what relationship, if any, exists between the growth of the Soviet economy and its participation in foreign trade and technical assistance, as well as to appraise the likely impact of the Soviet "economic offensive."

In the course of the last two or three years the Soviet bloc has been making a systematic effort to expand its participation in international economic affairs. With considerable fanfare it has increased its volume of commodity exchange under a growing network of bilateral trade and payments agreements; it has concluded a whole series of long term credit and technical assistance contracts with several countries; and it has inaugurated a policy of taking part, on a quite lavish scale, in international trade fairs and cultural exchanges.

One of the more dramatic features of the new Soviet policy is the entrance of the Soviet economy into foreign markets as a supplier of capital goods and technical know-how to the underdeveloped areas in exchange for some of the agricultural and raw material surpluses of those areas. This development has received considerable public notice, and it has given rise to some exorbitant speculation as to the meaning of the new policy for the future of Soviet foreign trade. The Soviet economy, it is now argued, is approaching maturity. For more than 25 years the Soviet Union has consistently devoted its best resources to the development of the capital goods industries, while neglecting its agricultural sector; as a result, the Soviet economy has experienced a shift in its cost structure, so that now it enjoys a comparative advantage in the production of capital goods and suffers a comparative disadvantage in agricultural commodites and raw materials. Because of this, the argument continues, the Soviet Union now finds it economic to export capital goods and to import raw materials and food products; the new economic reality is causing the Soviet Union to abandon its traditional insistence on autarky, to depend more and more on foreign sources of supply for a significant part of its agricultural and raw material needs, and to emerge rapidly as a major supplier of capital goods in the world market. So runs the argument. If true, it would be a momentous development indeed, calling for a drastic reassessment of the Soviet Union as a formidable economic competitor with the West. But is it true? Is there any indication that the Soviet economy is in fact dismantling its autarkic barricades and embracing radically new attitudes and patterns of trade? It would seem that even a cursory look at the size, direction and composition of recent Soviet trade activities is sufficient to dispel this notion, and to suggest that the Soviet trade and aid potential is, at least quantitatively, still quite limited.

In looking at recent Soviet economic activities abroad, we tend perhaps to be overly impressed with one aspect of these activities, namely its new venture into the realm of foreign aid, and we tend to lose our sense of perspective as to the dimensions of this venture and its place in the overall volume of Soviet trade. The aid efforts of the Communist bloc are certainly novel and spectacular, but the magnitudes involved are still relatively modest. The attached tabulation (Appendix Table) lists the major credit agreements so far concluded by the USSR. Substantial additional loans were extended by other countires of the Soviet bloc, so that the total credits actually granted by the bloc now aggregate 1.3 - 1.4 billion dollars including some 300 million dollars worth of military credits; most of these agreements were concluded during 1956 and the credits will be drawn on over a period of about three to five years, so that the annual flow of trade resulting from these arrangements is not really going to be large. Moreover, both this and other Soviet efforts to promote trade with the underdeveloped countries have been launched from an extremely slender base of existing commodity exchange, so that despite these new trade and aid arrangements, hardly any underdeveloped country as yet conducts more than ten per cent of its trade with the bloc. This does not mean that the Soviet effort in this area may not be highly effective. In fact, as will be pointed out, their effort so far has been remarkably effective -- but this almost certainly cannot be attributed to its size.

Another point to bear in mind is the fact that the Soviet excursion into the underdeveloped areas represents only a small portion, and a quite unrepresentative portion, of overall Soviet trade activities. The Soviet Union conducts at least three quarters of its total trade with its own bloc ; of the balance, more than two-thirds is conducted with the countries of Western Europe. It is here that we must look for a clue as to whether Soviet trade is in fact undergoing a transformation. What do we find when we look at the commodity composition of this trade? Within its own bloc we find the Soviet Union a net importer of capital equipment, absorbing nearly half the capital goods exported by the satellites, while the bulk of Soviet exports is made up of raw materials, fuels and food. The Soviet Union does, of course, have important commitments to its bloc as a supplier of machinery and equipment, but on balance it almost certainly still imports more of such goods than it exports. This at least was the case in 1954, the last year for which such estimates are available. But this relationship could hardly have been reversed since then; on the contrary, recent events in Eastern Europe would be more likely to have intensified it. For example, there is now more reason than ever for the Soviet Union to maintain its food exports to the satellites as a way of intensifying their political dependence. When we look at Soviet trade with the West, we similarly find that its exports continue to be dominated by the same food, fuel and crude materials that have been the traditional export staples of Russia for decades, and that its imports continue to be predominantly manufactured products. Soviet imports of machinery and equipment, particularly, have been growing steadily while its exports in this category remain quite small. The following figures, from the U.S. Department of Commerce, are eloquent on this point:

Soviet Trade with the Free World

(in millions of dollars)

	1953	1954	1955
Soviet IMPORTS of machinery and equipment	106.7	145.1	184.7
Soviet EXPORTS of machinery and equipment	3.6	11.4	15.9

In other words, when we look at what has actually been happening to the commodity structure of Soviet trade, we find very little, if any, shift away from the traditional pattern. And yet, in terms of current Soviet economic needs, such a shift would seem to be very much in order.

There can be no doubt that the steady growth in the scale of industrial production both in the USSR and more recently in the satellites, has increased considerably the bloc's needs for imported raw materials. The stagnation of agriculture, which is also a bloc-wide phenomenon, similarly would seem to argue for a greater Soviet reliance on imports in this sector. At the same time, clearly, the Soviet economy now produces machinery and industrial equipment on a vast scale and in great variety. It _may_ in fact now have a comparative advantage in the production of this type of goods relative to agricultural and crude products. One would expect that the existence of the ever-growing annual pool of industrial goods would have long since led to a significant net flow of industrial exports to the outside world. Why has this not occurred, and why, in my view, is it not likely to occur on a really substantial scale in the near future?

In part, the answer can be found in the critical equipment needs of the Soviet domestic economy. The ambitious growth rates of the five-year plan, the determined effort to achieve rapid productivity gains, the ever-multiplying capital requirements of a modern defense industry, all these must place a heavy burden on the Soviet capital goods industry. To some extent, also, the answer lies in the claims on Soviet machinery production of the developing economies of Eastern Europe and China. But most important, it seems to me, is the underlying reluctance of the Soviet leaders to abandon their long-held doctrinal ideal of autarky. At this stage in its development, the

Soviet economy could certainly enjoy more of the benefits of foreign trade, if only it were willing to tolerate even a modest degree of dependence on external supplies of food and raw materials. The endemic, bloc-wide Soviet agricultural problem could certainly be alleviated by even a relatively modest program of regular grain and fodder imports. Instead Krushchev exhorts his people to expand grain output so that the Soviet economy may increase its grain exports. True, there appears to be now some official Soviet recognition of the advantages of international specialization, and some efforts on the part of Soviet economists to promote at least an intra-bloc division of labor; moreover, the current economic offensive indicates an important trend toward a more flexible and confident Soviet behavior in international economic affairs. But at the same time it is equally apparent that no fundamental revision in the Soviet attitude toward foreign trade has taken place. The Soviet planners do, of course, have some latitude for expanding trade within the limits of the principle of autarky, but the principle itself continues to be very much in force and to exercise an important limiting influence on the magnitude and normal growth of Soviet foreign trade.

The discussion, so far, has concentrated only on the magnitude and growth aspects of the Soviet trade offensive; I have suggested that the scale and economic significance of the new Soviet effort have been overstated; that it is not now large, nor does it show much promise of becoming large. But it would be a grave error if we were to consider only these quantitative aspects of the Soviet effort. We would be foolhardy to draw comfort from its modest dimensions, and ignore the highly effective way in which the Russians have deployed their limited aid resources.

One cannot help but be impressed with several features of the Soviet program:

(1) The shrewdness with which the Soviet planners have selected their economic aid targets and weapons, to achieve maximum political impact at an acceptable cost. Instead of frittering away their resources on numerous countries and projects, they have carefully conserved their main effort for use in a few key areas. (The total volume of Soviet bloc credits is distributed among the recipient countries approximately as follows: Yugoslavia, 35 per cent; Egypt, 21 per cent; India, 21 per cent; Afgnanistan, 11 per cent; Indonesia, 8 per cent; Syria, 4 per cent.) Within each of these areas, they have concentrated their support on a few spectacular projects dear to the hearts of the local population. Moreover, Soviet preference runs distinctly toward long-term economic aid arrangements rather than a straightforward expansion of normal trade, since the aid approach does not involve them in a large immediate export commitment, but allows them to string out their shipments over a much longer period of time, thus reducing the immediate burden on their hard-pressed equipment industry.

(2) The adroitness of Soviet policies in exploiting some of the weaknesses of existing Western aid programs. Recent Soviet loans, for example, uniformly carry an interest rate of 2 - 2.5 per cent, about half the rate at which such credits are available from the West. More important, repayment terms tend to be attractive to the underdeveloped countries since the Soviet Union is willing to take repayment in the form of local export goods. Moreover, in the process, the Soviet government has shown itself prepared to help the recipient countries dispose of agricultural surpluses, which could not be readily disposed of in the world market. But above all, the Soviet salesmen have conspicuously abstained from tying their commercial undertakings to demands for political loyalty or military alliance. This

"no-strings" approach to aid has no doubt struck a strong responsive chord in the uncommitted part of the world.

(3) Finally one might call attention to the perceptiveness of the Soviet leaders in knowing how to appeal to the pride and sensibilities of the underdeveloped countries. Recognizing the desire of the newly independent countries for status and respect, the Russians have spared no cost in sending top-ranking Soviet officials to carry out negotiations and conduct technical programs. To head the Soviet steel mill project in India, the Russians sent no less than a Deputy Minister of Construction of Chemical and Metallurgical Enterprises of the USSR. Great emphasis has been placed in the Soviet aid program on the provision of technical training of local specialists, on extending opportunities for educating local technicians in Soviet institutes, on establishing research centers and technical schools in the local areas; this effort cannot help but exert a powerful influence on the intelligentsia in each of the target countries.

In the short run, there can be no doubt that the modest but ingeniously designed Soviet effort has reaped large political rewards, quite out of proportion to its size. Whether this performance can be sustained in the long run, as the novelty wears off and as the program develops and suffers inevitable bureaucratization, remains to be seen.

Foreign Aid and Credits of the U.S.S.R. to Underdeveloped Countries*

Country and Project	Date of agreement	Amount ($ millions)	Interest rate	Duration of credit	Brief description of project
1. Afghanistan					
(a) Grain elevators, flour-milling and baking plants	1-27-54	3.5	3%	5 years	Credit to cover Soviet equipment and services of technicians.
(b) Oil storage tanks	July '54	1.0	-	-	Credit to cover Soviet equipment and services of technicians.
(c) Asphalt plant and paving project	10-5-54	2.1	-	-	Credit to cover Soviet equipment and services of technicians.
(d) Economic development loan	1-28-56	100.0	2%	30 years	Credit to finance several economic projects.
(e) Arms Credit	-	-	-	8 years	Reported in P.M. (Daud) address made on 8-25-56.
2. India					
(a) Steel mill project	2-2-55#	115.0	2.5%	12 years	Credit to pay for Soviet blueprint, equipment, and technicians used in the construction of the steel plant (1 million tons).

* From the files of U.S. Department of Commerce.

\# Indian Government accepted Soviet project study on March 8, 1956.

Foreign Aid and Credits of the U.S.S.R. to Underdeveloped Countries - continued,

Country and Project	Date of agreement	Amount ($ millions)	Interest rate	Duration of credit	Brief description of project
4. Yugoslavia (continued)					
(d) Atomic energy reactor	1-28-56	-	-	-	
(e) Industrial development[1]	8-3-56	40	2%	Long term	For coal, shipbuilding, oil and gas, reclamation, agriculture.
(f) Aluminum combine[2] (50,000-100,000 tons)	8-3-56	175	2%	Long term	Project to include aluminum plants, hydroelectric power stations, bauxite mines.
5. Burma					
(a) Technological Institute	12-6-55	-	-	-	Soviet assistance in construction to be paid in rice.
(b) Hospital, theater, sports stadium	4-1-56	-	-	-	Soviet assistance in construction to be paid in rice.
(c) Industrial development	12-6-55	-	-	-	Announced in general terms; agreement still to come.

1 Further utilization January 1956 industrial development credit.

2 In conjunction with GDR; this credit covers first installment of deliveries to be made in two stages.

Foreign Aid and Credits of the U.S.S.R. to Underdeveloped Countries - continued

Country and Project	Date of agreement	Amount ($ millions)	Interest rate	Duration of credit	Brief description of project
2. India (continued)					
(b) Industrial diamond mining project	6-19-55	-	-	-	Soviet machinery to be supplied on credit to owners.
(c) Plant for files and rasps	10-24-55	-	-	-	Contract with private firm for Soviet equipment.
(d) Equipment Credit**	11-15-56	126	2.5	12 years	To cover purchase of Soviet heavy industrial machinery.
3. Finland					
(a) Gold (or free exchange)	2-7-54	10	2.5	10 years	
(b) Gold (or free exchange loans)	1-25-55	10	2.5	10 years	
4. Yugoslavia					
(a) Industrial development (Fertilizer production)	1-13-56	110	2%	10 years	Soviet equipment on credit for 2 plants, 1 power station.
(b) Raw materials credit	2-2-56	54	2%	10 years	Credit to cover Soviet shipments of raw materials during 1950-1958.
(c) Gold (or free exchange) loan	2-2-56	30	2%	10 years	For use during 1956-8 to be repaid in 10 years, beginning 1-1-59.

** Not yet confirmed by USSR. Some later indication that this credit will not be available until 1959.

Foreign Aid and Credits of the U.S.S.R. to Underdeveloped Countries - continued.

Country and Project	Date of agreement	Amount ($ millions)	Interest rate	Duration of credit	Brief description of project
6. Egypt					
(a) Laboratory nuclear physics	2-10-56	-	-	-	Covers Soviet equipment and exchange of technical personnel.
7. Indonesia	9-15-56	100	2.5	12 years	To cover several unspecified industrial projects. Indonesia given eight years to spend credit on specific projects.

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