

Talk, prospects, and promises, but no East-West trade upturn

by Konstantin George

A spate of articles has recently appeared in Western financial dailies, such as the London *Financial Times*, citing an alleged "upturn in the making" in East-West trade, and extolling the prospects of billions of dollars of Soviet orders for Western goods and equipment, in the context of the U.S.S.R.'s coming 1986-90 Five-Year Plan. Eastern Europe and the Soviet Union are described as "the relatively debt-free . . . export market of hope." High-level Soviet delegations have scurried back and forth from the leading countries of Western Europe, beginning with then Politburo member Mikhail Gorbachov's London visit in December 1984, dangling multi-billion dollar export order "carrots" before Western bankers and industrialists.

EIR has recently conducted a thorough analysis of the East-West trade picture from 1981 to 1985. We reviewed the details of every East-West trade deal signed from Aug. 1, 1984 to April 30, 1985 (there have been no significant contracts signed since April). Extensive discussions were held with leading East-West trade experts in West Germany, the United Kingdom, France, and Italy.

We can now report that the "upturn" is a myth. Trade is the movement of goods—not Politburo members and other high-level delegations—across national borders. The only "upturn" is in the realm of Soviet promises to Western Europe, that if those countries decouple from the United States and reject the American Strategic Defense Initiative (SDI), then Mother Russia will reward them bounteously.

In those cases in which one does find a sharp rise in Soviet purchases from the West, this is accounted for by 1) Soviet requirements for pre-war stockpiling of goods, as in the 1984 grain purchases from the United States, which account for 90% of U.S.-Soviet trade, and 2) the need to overcome critical bottlenecks in the Soviet economy. Purchases of grain and agricultural products form the overwhelming portion of Soviet trade with Canada, Australia, and Argentina, and, an increasing portion of Soviet trade with countries of the European Community, such as Great Britain and France.

The spring 1985 awarding of 1.3 billion deutschemarks in orders to France for petroleum industry equipment—the only recently signed European-Soviet deal of any magnitude—is accounted for on both these political and strategic-economic grounds. France, which is now spearheading Eu-

ropean opposition

pieces of silver, while Russia received urgently needed plant and equipment for its oil industry, which has been repeatedly chastised by General Secretary Mikhail Gorbachov and other leaders, for its stumbling performance.

The Soviet "linkage" of trade to strategic considerations was also recently manifested in the cases of Belgium and Italy. Using an outbreak of swine fever as an excuse, Moscow canceled all agricultural imports from Belgium. The ban is still in effect, although the swine fever has been eradicated. Everyone in the know in Belgium is aware that the Soviet move was punishment for Belgium's agreement to station U.S. cruise missiles. The Italian government was recently told by Soviet foreign trade officials, that unless Italy agreed

TABLE 1
Trends in Soviet foreign trade, 1981-84

| | 1981 | 1982 | 1983 | 1984 |
|--|---------|---------|---------|---------|
| Total Soviet trade (millions of rubles) | 109,740 | 119,576 | 127,480 | 139,711 |
| Within the CMEA ¹ | 52,196 | 38,702 | 65,261 | 72,752 |
| Among socialist countries ² | 57,944 | 64,952 | 71,409 | 80,326 |
| With capitalist countries ³ | 35,359 | 37,414 | 38,372 | 40,924 |
| With developing sector ⁴ | 16,447 | 16,883 | 17,698 | 18,461 |
| | 1981 | 1982 | 1983 | 1984 |
| Total Soviet trade (by percentage) | 100.0 | 100.0 | 100.0 | 100.0 |
| Within the CMEA ¹ | 47.6 | 49.8 | 51.2 | 52.1 |
| Among socialist countries ² | 52.3 | 54.3 | 56.0 | 57.5 |
| With capitalist countries ³ | 32.2 | 31.6 | 30.1 | 29.3 |
| With developing sector ⁴ | 15.0 | 14.1 | 13.9 | 13.2 |

¹The countries of the Council for Mutual Economic Assistance (or Comecon) include the Soviet Union, East Germany, Czechoslovakia, Bulgaria, Poland, Hungary, Romania, Cuba, Mongolia, and Vietnam.

²Includes the Comecon countries, plus China, Yugoslavia, and North Korea.

³Includes Finland.

⁴Includes Soviet-occupied Afghanistan, and client states, such as Libya, South Yemen, Syria, Ethiopia, and Angola. Dropping these countries from the developing-sector category, and putting them into the socialist category, would make even more stark the picture of socialist country autarchy, and collapse of trade with the developing sector.

TABLE 2

West German-Soviet trade, 1970-85

(millions of deutschemarks)

| | 1970 | 1975 | 1980 | 1982 | 1983 | 1984 | 1985* |
|---|-------|-------|-------|--------|--------|--------|-----------|
| West Germany exports to the U.S.S.R. | 1,546 | 6,948 | 7,943 | 9,395 | 11,245 | 10,767 | 11,000 |
| Soviet exports to the Federal Republic of Germany | 1,254 | 3,240 | 7,517 | 11,358 | 11,788 | 14,333 | 12-13,000 |

*Based on first quarter 1985 figure extrapolated for entire year.

West Germany is the Soviet Union's largest Western trading partner by far—its number six partner, and the only one for which the trade volume is comparable to that between the Soviet Union and its top five trading partners, all of which are members of the Comecon. From 1983 through the first quarter of 1985, West German exports stagnated. The dramatic rise in Soviet exports, especially from 1975 on, almost exclusively consisting of oil and natural gas, was reversed in the first quarter of 1985, with the collapse of oil deliveries and a drop-off in natural gas deliveries.

TABLE 3

The collapse of Japanese-Soviet trade, 1982-84

(millions of rubles)

| | 1981 | 1982 | 1983 | 1984 |
|------------------|-------|-------|-------|-------|
| Total trade | 3,030 | 3,682 | 3,004 | 2,894 |
| Japanese exports | 2,213 | 2,926 | 2,176 | 2,054 |
| Soviet exports | 917 | 757 | 829 | 840 |

to step up high-technology exports to Russia, the Soviet Union would start cutting back its purchases of Italian goods.

The statistics show clearly that the Western European-Soviet trade picture reflects stagnation and decline.

By far the leading Soviet trade partner in the West, is the Federal Republic of Germany. According to the latest figures published by the Deutsches Institut für Wirtschaftsforschung (DIW) in West Berlin, West German exports to the U.S.S.R. for January-April 1985, are up only 3% over the comparable 1984 period. This "increase" will not even bring German-Soviet trade back up to the 1983 level. Soviet exports to West Germany for January-April 1985, are down by a whopping 16%, reflecting the huge problems in Soviet oil production and deliveries. This is the first big fall in Soviet exports, after—broadly speaking—15 years of uninterrupted growth based on oil and gas exports. There have been similar sharp drops in Soviet oil exports to all major Western European countries in the first four months of 1985.

West German exports to Russia have been stagnant and down somewhat from their 1983 peak. West German trade with Eastern Europe last year "recovered" to reach its 1980 levels again. Every West German expert in East-West trade contacted by *EIR*, agreed that no upturn has occurred, nor is one even in sight. "Not before 1986 at the very earliest, if at all," said one. These analysts and company officers told us that this is not just the case with West Germany, but across the board.

The fall of Soviet foreign trade is even more stark in Asia. Punishing Japan for its pro-American and pro-SDI stance, the Soviets have slashed their purchases of Japanese exports by more than one-third since 1982. Japanese exports to Russia fell by 871 million rubles between 1982 and 1984, dropping to 2 billion rubles. The other Asiatic whipping boy of the Soviet media, Thailand, has also seen its exports to Russia slashed since 1982 by 70 million rubles, to near zero levels.

A policy of autarchy

Statements by the Soviet leadership over the past several years, and especially since Yuri Andropov's accession to power in 1982, have repeatedly emphasized that Soviet policy is to drastically increase trade among the Soviet allies in the Council for Mutual Economic Assistance (CMEA, or Comecon), and other socialist countries such as China, North Korea, and Yugoslavia, while holding down trade levels with capitalist countries and the developing sector. At the June 10 special conference of the Soviet Central Committee on the role of science and technology in the economy, chaired by Gorbachov, Academy of Sciences President Anatolii Aleksandrov announced a program to "change what in some cases has become excessive orientation toward Western technology and supplies" (see *EIR*, June 25, "Soviet leaders announce crash war-economy plan").

Soviet policy statements have been matched by the international flow of goods. From 1981 to 1985, the percentage of Soviet trade conducted within the CMEA has gone from 47.6% of the total in 1981 to 52.1% in 1984, with the trend increase persisting into 1985. Soviet trade with what Russia terms the "socialist countries" (CMEA members plus China, North Korea, and Yugoslavia) has risen dramatically in the same timeframe from 52.8% of total Soviet trade, to 57.5%. For 1985, the Soviets are projecting a rise, to a level approaching or equaling 60% of Soviet trade.

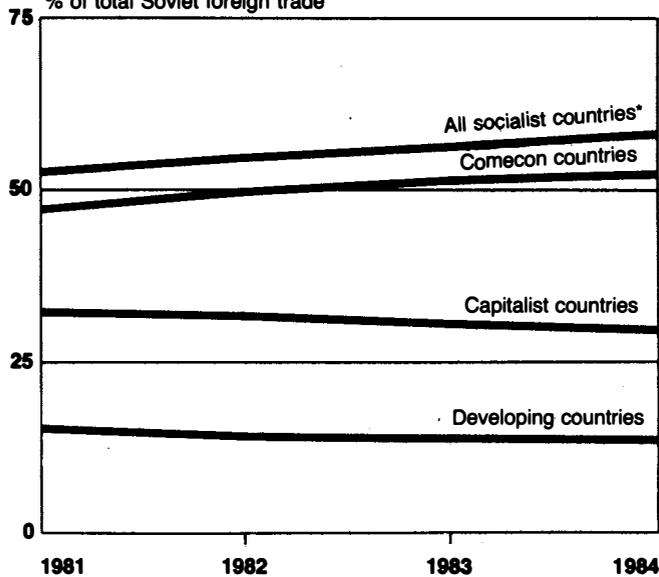
In stark contrast, stands the 1981-84 Soviet trade pattern with the capitalist countries and the developing sector. In 1981, Soviet trade with the capitalist countries formed 32.2% of Soviet trade. In 1984, this fell to 29.3%. In 1981, Soviet

trade with the developing sector was 15% of Soviet trade. For 1984, this had fallen to a mere 13.2%. The decline would be even sharper if countries like Afghanistan, Libya, Syria, Angola, and Ethiopia, all included among the Soviet category "developing sector," were omitted from that grouping.

According to the latest DIW statistics on trade between West Germany and East Germany in 1984 and the first four months of 1985, East German policy has been to drastically reduce imports of machinery and equipment from West Germany. The figures are staggering. In 1983, East Germany purchased DM1.266 billion worth of capital goods from West

Figure 1

The composition of Soviet foreign trade % of total Soviet foreign trade



* Includes Comecon

Germany. In 1984, this dropped by DM345 million to DM1.026 billion. Purchases of West German machinery fell by DM134 million to DM635 million, equivalent to the 1975 level. The prospects for 1985 look even worse. In the first four months of 1984, West German machinery sales to East Germany were DM146 million; for the first four months of 1985, the figure is down to DM132 million.

Overall, however, West German exports in 1985 to East Germany are up heavily, by 25% in the first four months 1985. Well-informed German trade sources insist that this rate will not last, and predict an annual increase rate of between 5% and 10%. According to these sources, the increase reflects Soviet-CMEA strategic purchase policy: "The increase is coming from heavy purchases of West German basic materials, especially from the chemicals sector [which last year accounted for 20% of West German exports to East Germany], and mining equipment for the East German lignite mining industry, the country's basis for self-sufficiency in energy."

Moscow's trade game in Western Europe

by William Engdahl

Late in 1984, Moscow began to intensify its use of industrial trade as a weapon, to build a lobby within trade-starved West European industry. It entered into a series of credit arrangements with West German, British, French, and Swiss banks, increasingly denominated in the European Currency Unit basket, the ECU, rather than the dollar. Now, the Soviets have renewed an initiative, through the Polish ambassador to Brussels, formally proposing talks between the Soviet-dom-

TABLE 1

Europe-Comecon trade contacts

| Country | Date | Details | Value |
|----------|-------|--|--------------|
| I. Italy | 8/84 | Pirelli gets contract to build tractor parts factory in U.S.S.R. | U.S. \$20mn |
| | 8/84 | Fiat signs via Comau S.p.A. contract to sell soldering material to U.S.S.R. Also outlined cooperation agreement on auto, tractor, robots for potential sales of U.S. \$1.6bn | U.S. \$40mn |
| | 8/84 | Olivetti renews 5-yr cooperation accord with U.S.S.R., covering office machines, factory automation equipment, but no firm contracts. | n.a. |
| | 9/84 | Snamprogetti contracts to build hydrocracking plant in Bratislava, Czechoslovakia | n.a. |
| | 9/84 | Cogolo contracts to build 3 shoe factories in U.S.S.R. | U.S. \$300mn |
| | 9/84 | Montedison signs agreement on scientific-technical cooperation with U.S.S.R. State Ctte for Sci-Tech. | n.a. |
| | 10/84 | Selenia S.p.A. gets contract for electronic air-traffic control system for Moscow airport | n.a. |
| | 10/84 | Melegari S.p.A. contracts to sell 2 wine-bottling assembly lines to U.S.S.R. | n.a. |
| | 1/85 | Vettori-Manghi contracts to deliver 50 tomato-paste making machines to U.S.S.R. | n.a. |
| | 1/85 | Fiat contracts for \$11 million of specialized Arctic mining equipment to U.S.S.R. | n.a. |