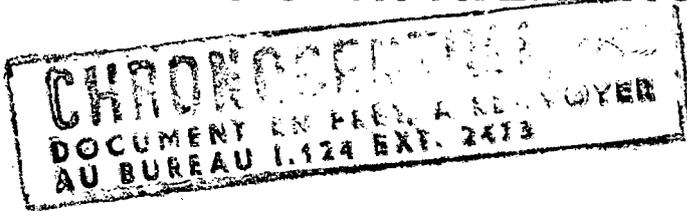


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DEVELOPMENT OF TRADE RELATIONS BETWEEN THE
COMMUNIST COUNTRIES AND THE THIRD WORLD

Note by the Secretary General

This document traces developments in trade between the East and the Third World over the last few years. It was prepared by the Economic Committee in the light of the conclusions reached at a meeting held with Experts from capitals.

2. The report is submitted to the Council for information along with a second study on Communist economic aid and arms supplies to less developed countries (C-M(80)4).

(Signed) Joseph M.A.H. LUNS

NATO,
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This document includes: 1 Annex

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DEVELOPMENT OF TRADE RELATIONS BETWEEN THE COMMUNIST
COUNTRIES AND THE THIRD WORLD

Report by the Economic Committee

Summary

(i) In 1977 the value of trade between the European members of COMECON and the non-communist developing countries totalled \$12.7 milliard for exports and \$8.6 milliard for imports. Roughly half the transactions were accounted for by the Soviet Union, although that country's relative share in the area's trade is tending to fall off to the benefit of certain East European countries, especially Romania, whose trade relations have expanded faster over the last few years. The Soviet Union, Poland, Czechoslovakia and Romania traditionally have a surplus in their trade with these countries, whereas the GDR and Hungary have a deficit. They concentrate their Third World trade on a limited number of partners, with the Middle Eastern countries providing the main outlets (see paragraphs 1-7).

(ii) Where exports are concerned, the commodity pattern of Soviet and East European trade with Third World countries is dominated by capital equipment and other manufactures. Soviet imports are concentrated mainly on foodstuffs, raw materials and energy products, in that order. For the People's Democracies, the main imports are energy products and foodstuffs followed, although on a smaller scale, by raw materials. The disproportion between the high percentage of manufactured goods in communist sales and the relatively small percentage of such goods that are imported is worth noting (see paragraphs 8-9).

(iii) All in all, the Third World accounted in 1977 for some 12% of the total exports of the European communist countries taken as a whole and for about 8% of their imports. These are average figures, however, the percentages are actually appreciably higher for the USSR and, above all, Romania, and lower for the other East European countries. Only for a limited number of raw materials (bauxite, tin, natural rubber) and foodstuffs does the Soviet Union appear to be dependent on trade with the Third World. The East European countries' dependence extends to certain industrial raw materials and foodstuffs and, increasingly, to oil. Only four non-communist developing countries (Afghanistan, Guinea, Iraq and Syria) conducted more than 15% of their trade with the communist countries in 1977 (see paragraphs 10-15).

(iv) In the longer term, there should be no major shift in the overall pattern of communist Third World trade. Moscow will continue to import agricultural goods and industrial raw materials while the East European countries will, in addition,

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probably have to procure increasing quantities of oil from the OPEC countries. Moscow's best export chances would appear to be in those developing countries which have reached a relatively advanced stage of industrialization (see paragraphs 16-17).

(v) The motives behind Moscow's trade involvement with the Third World are probably numerous and are often closely interrelated. The relative importance attached to them can vary from one partner to another. In addition to strictly economic factors, which are becoming more and more important, reasons such as geographical proximity, ideological considerations, and downright opportunism also determine Moscow's policy. Its aim is now to appear as much as possible to the developing countries as a really credible partner. Another feature of Soviet trade policy is the tendency to give transactions a bilateral appearance, e.g. by concentrating on the conclusion of co-operative agreements comprising joint commissions, for instance (see paragraphs 18-20).

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DEVELOPMENT OF TRADE RELATIONS BETWEEN THE COMMUNIST COUNTRIES AND THE THIRD WORLD

(i) GENERAL TREND

1. In 1977, the last year for which full statistics are available, exports from the European members of COMECON to non-communist developing countries were worth \$12.7 milliard and imports from those countries \$8.6 milliard. The Soviet Union accounted for a large proportion of these transactions, with 57% of the exports to Third World countries and 47% of the imports(1). This means that its relative share in European communist trading operations with the Third World is greater than for trade with the industrialized West or, indeed, for overall trade(2). At the same time, it should be noted that Soviet pre-eminence in this field has diminished over the last few years.

(a) Soviet Trade

2. Recent Soviet dealings with the Third World show fairly marked fluctuations from one year to another. After two years of modest growth, Soviet exports increased (on a dollar basis) by 47% in 1977 and 13% in 1978 to reach a total of \$8.2 milliard. Imports were even more irregular, with a rise of 31% in 1975 followed by a fall-off of 9% in 1976, a slight upturn (+ 8%) in 1977, and lastly a standstill at \$4.1 milliard in 1978 (see Table I at Annex).

3. Traditionally, the Soviet Union has a surplus in its trade with the Third World. This surplus has risen sharply during the last few years and stood at \$4.2 milliard in 1978. However, it should be pointed out that the surplus was attributable to that portion of the USSR's exports for which no breakdown by recipient developing country is given in the Soviet figures(3), and which is generally considered to consist mainly of arms sales. It is notable that if these residual statistics are excluded, the Soviet Union's convertible currency trade balance with the Third World shows a constant deficit(4).

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- (1) 1977 figures.
 - (2) In 1977, the USSR's relative share in trade between the European members of COMECON and the OECD countries was 49% for exports and 46% for imports. The corresponding figures for overall trade were 45% and 40% respectively.
 - (3) The value of this category of exports was \$4.1 milliard in 1978.
 - (4) USSR's apparent trade balance (i.e. excluding residual) in convertible currencies with the Third World (in \$ millions):

	<u>1975</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>
Source: AC/127-D/590	-1,165	-926	-741	-577

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4. A feature of Soviet trade with the Third World is the way it concentrates on a small number of countries. In 1978, for instance, trade (exports plus imports) with four countries (Iraq, India, Iran and Egypt) accounted for half the USSR's total trade with developing countries (excluding residual). This relative lack of diversity does not, however, mean that there have been no recent changes in the geographical pattern of trade relations and in the order of importance of the main trading partners.

5. A survey of recent trends in the pattern of Soviet trade by large geographical areas (see Table II at Annex) points up the fall in Africa's relative share of both exports and imports. But the drop is chiefly due to the reduced trade with Egypt, which remains far and away Moscow's main trading partner in the area, and it conceals the growth of trade with other countries (Ghana, Libya, Ethiopia) and the emergence of new partners (Angola, Guinea). The Soviet Union's sales to Central and Latin America have remained proportionally small while its purchases from this part of the world - mainly Argentina and Brazil - have grown. The importance of the Middle East(1) as a Soviet trade outlet in the developing countries has increased sharply because of the rapid expansion of exports to Iraq(2), Iran and, to a lesser degree, Syria; the area now accounts for half of all Soviet sales to the Third World. Lastly, there has been a relative rise in the proportion of Soviet exports to the other Asian countries - almost exclusively Afghanistan and India - but, at the same time the importance of the area as a supplier to the Soviet economy has decreased significantly.

(b) East European Trade

6. Eastern Europe's trade with the non-communist developing countries tends to expand more rapidly than that of the Soviet Union with the same countries: between 1970 and 1977, exports increased each year on average by 23% (as against 20% in the case of the Soviet Union) and imports rose by 24% (18% for the Soviet Union). Among the People's Democracies, the pace of expansion varies quite widely from one country to another, with Romania - the Third World's main trading partner in Eastern Europe since 1974 - registering the best progress, followed by Hungary. On the other hand, Czechoslovakia's trade made the worst showing (see Table III at Annex). The GDR and Hungary both show overall trade deficits (\$82 million and \$161 million respectively in 1978); but the other East European countries regularly have surpluses (see Table I at Annex).

(1) Saudi Arabia, Cyprus, UAE, Iraq, Iran, Jordan, Kuwait, Lebanon, Syria, Turkey, Yemen Arab Republic, Yemen People's Democratic Republic.

(2) The very rapid expansion (+ 140%) of Soviet exports to Iraq in 1978 is significant.

7. Like the Soviet Union, Eastern Europe's trade with the Third World is concentrated on a small number of countries. With the exception of Poland's sales, which are comparatively diversified, in all cases the five main trading partners account for at least half of all transactions. Table IV reveals that the Middle East is particularly important as an outlet for the foreign trade of Romania, Hungary and Czechoslovakia; in 1977, this area accounted for at least half of these three countries' total sales to the Third World. Most of Bulgaria's(1) exports, however, go to Africa, while Poland shows the most balanced pattern of exports by major regions. The developing countries of Latin America provide a relatively high proportion of Hungarian, Polish and Czechoslovak imports; in all three cases, Brazil is the top supplier. Most of Romania's purchases come from the Middle East (almost exclusively Iraq, Iran and Kuwait).

(ii) COMMODITY PATTERN OF TRADE

8. Setting aside the "residual", i.e. that proportion of sales for which there is no specific breakdown by a recipient country(2), the commodity pattern of Soviet exports to the developing countries is heavily weighted towards machinery and capital equipment, which account for a little less than half (43% in 1976) the value of all deliveries. The next most important category is mineral fuels, with 22%. Soviet imports are dominated by foodstuffs (56% of all purchases in 1976), raw materials (17%), energy products (14%) and, lastly, manufactures and miscellaneous commodities (13%).

9. The most important categories in exports to the Third World from the East European countries taken as a whole are machinery and capital equipment (43% of sales in 1976) and manufactured goods (26% of deliveries). The two leading categories of imports are energy products and foodstuffs (34% and 31% respectively of the total value of purchases in 1976). Other raw materials account for about a fifth of procurements while, as for the Soviet Union, manufactures and miscellaneous goods represent a mere 14% of purchases(3).

(iii) MUTUAL IMPORTANCE OF TRADE AND INTERNATIONAL COMPARISONS

10. Trade with the non-communist developing countries represents a by no means negligible part of Soviet trade: in 1978, it accounted for 16% of exports and 8% of imports. Since the beginning of the present decade, however, the ratio has remained virtually unchanged as far as exports are concerned

(1) Libya accounts for 56% of Bulgaria's African sales in value terms.

(2) The sales in question are mainly arms.

(3) The commodity pattern percentages given in this and the preceding paragraph apply to communist trade with the developing countries taken as a whole, including other communist countries.

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and has actually gone down for imports (see Table V at Annex). The scale of Third World transactions in the foreign trade of the East European countries varies quite widely from one country to another although, except in the case of Romania, it is less extensive than that for the USSR. The past few years have seen a sharp increase in the relative importance of the developing countries in trade with Romania and, to a lesser extent, Hungary, Bulgaria and the GDR(1); it has remained steady in the case of Poland, whereas Czechoslovakia's trade with the Third World has expanded at a slower pace than its overall trade (see Table V).

11. It is difficult to determine the importance to the Soviet economy of goods imported from the non-communist Third World. As things stand, it would seem that in the agricultural sphere there is almost total dependence on natural rubber from the Far East (mainly Malaysia) and that some years Latin America (essentially Argentina and Brazil) supplies significant quantities of corn, meat, sugar and soya. It is true that the Russians also import large quantities of tropical goods (coffee, cocoa, tea) as well as fresh vegetables and fruit but, although important, these are not essential. Soviet dependence on industrial raw materials(2) would appear to be limited to the raw materials of aluminium, tin and, to a lesser extent, fluorspar; also, it is possible that the Russians have adequate reserves of these materials and that they have decided to abandon a policy of autarch because of the high cost of exploiting their own deposits. Recent large scale procurements of lead and zinc by the Soviet Union have led to speculation over the country's exact position regarding these metals.

12. The dependence of the People's Democracies on raw materials from the Third World is probably greater than that of the Soviet Union because they have fewer such natural resources. Special mention should also be made of oil, which will probably have to be increasingly imported from other than Soviet sources in future.

13. All in all, trade with the Communist countries is of relatively little importance to the developing countries; in 1977, they sent only 3% of all their exports to the USSR and Eastern Europe and made only 5% of their purchases there.

(1) It should be noted that, while it has progressed in relation to 1970, GDR trade with the Third World was still very small in 1977 (6% of all exports and 5% of imports).

(2) A reinforced meeting of the Economic Committee to deal specifically with Soviet strategic raw materials trade policy will be held in November 1979.

What is more, the number of countries were trade with the European communist countries and China accounts for a significant part of overall trade is small: in 1977, only for four such countries (Afghanistan, Guinea, Iraq and Syria) did the total value of trade with the communist countries exceed 15%.

14. If the trade of the Third World countries with the communist countries, the OECD industrialized market economy countries and finally the countries in the OPEC grouping is compared, it will be seen that the communist countries account for very little. Not only is the level of their trade well below that of the developed Western countries but it is also lower than that of the oil exporting countries(1).

15. At the fifth UNCTAD in Manila, the developing countries criticized what they considered the too restrictive trading attitude of the communist countries, and particularly inadequate transfer of technology and the fact that Eastern imports were concentrated on raw materials to the detriment of manufactures. It is difficult to bring practical pressure to bear through UNCTAD type meetings but if, as seems to be the case, the Soviet Union is concerned over its image in the Third World it cannot disregard this discontent, which has apparently become more pronounced since the fourth Session (Nairobi).

(iv) OUTLOOK FOR EAST-SOUTH TRADE

16. In the short term, the pattern of Soviet imports from the Third World should not vary greatly from what it has been over the last few years. Because of the continued need for agricultural goods and certain industrial raw materials, there is likely to be a certain level of imports, although convertible currency limitations may restrict their growth.

(1) 1977 trade of the non-communist developing countries
(\$ billions)

<u>Exports to</u> <u>Eastern Europe</u>	<u>Exports to the</u> <u>OECD Grouping</u>	<u>Exports to the</u> <u>OPEC Countries</u> <u>(including intra-</u> <u>OPEC transactions)</u>
8.6 (*)	203.5 (**)	10.6 (***)
<u>Imports from</u> <u>USSR and Eastern</u> <u>Europe</u>	<u>Imports from</u> <u>the OECD Grouping</u>	<u>Imports from the</u> <u>OPEC Countries</u> <u>(including intra-</u> <u>OPEC transactions)</u>
12.7 (*)	171.5 (***)	31.0 (***)

(*) Source: Table 1

(**) Source: OECD Foreign Trade Statistics, Series A. Statistics exclude Yugoslavia and include and FOB estimate of Third World sales.

(***) Source: IMF FOB Data

Because of the disparate nature of the sources from which they come, these figures should be taken as indications only.

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The chances for Soviet exports in the poorest Third World countries are slim because Moscow has difficulty in supplying them with the equipment and agricultural goods they require. But, Third World countries which have reached a relatively high level of industrialization hold out more opportunities because the Russians are better able to supply their needs. Another factor which may work in favour of Soviet (and East European) exports is the strong desire of countries like Iraq to diversify their sources of supply.

17. The predictable need to procure more oil from countries other than the USSR should be one of the main incentives for increased East European imports from the Third World. But it remains to be seen whether these countries will be able, through the export of goods and services, to finance these oil imports, which are paid for mainly in convertible currencies.

(v) COMMENTS ON SOVIET THIRD WORLD TRADE STRATEGY AND MOTIVES

18. Trade is appearing increasingly as the favourite means of developing economic relations between the Soviet Union and the Third World. This has gone hand in hand with a decline in the relative importance of economic aid as an instrument of economic penetration, since Moscow has come to realize that in many cases such aid was ill-suited to local needs, was often used for over-ambitious projects and did not engender a genuine feeling of solidarity conducive to the establishment of a lasting presence.

19. The motives underlying Moscow's trade involvement with the Third World are numerous and often closely interrelated; however, the relative importance attached to them may vary depending on the partner concerned. Firstly, there are the purely objective and probably increasingly important reasons stemming from economic necessity. In addition to these strictly economic factors, downright opportunism and geographical proximity play a part. Politico-ideological considerations too may be an important element - Ethiopia is a case in point. However, in its Third World transactions there are also years when the Soviet Union finds itself constrained by a shortage of convertible currency, when for instance it has to make urgent and unscheduled imports (such as grain) from the industrialized West.

20. In developing its trade with the Third World, Moscow is trying to adopt a more realistic approach than in the past and to appear as a really credible trading partner. This desire for credibility is especially apparent in Africa, south of the Sahara, where an effort is being made to adapt trade more closely to local structures and to increase the number of the USSR's convertible currency trading partners. The

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multiplication over the last few years of the number of economic agreements comprising joint commissions concluded with the developing countries demonstrates the importance attached by Moscow to formal trading machinery. Also, although it subscribes to certain international commodity agreements, the USSR has a marked preference for bilateral trade relations; this is apparent even in tripartite USSR - West - South trading operations where, more often than not, the Russians seek to play down the tripartite aspect of the co-operation in the eyes of the Third World and make it appear bilateral. Lastly, there seems to be no real co-ordination between the USSR and its European COMECON partners in the promotion of East - South trade. The fact that each communist country tends to develop its trade with the Third World according to its own specific field of interest probably stems from practical considerations.

(Signed) J.N. GIBault
Chairman

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TABLE I - RECENT TRENDS IN THE VALUE OF TRADE BETWEEN THE
COMMUNIST COUNTRIES AND THE THIRD WORLD
(in millions of US \$)

	1975	1976	1977	1978
<u>Eastern Europe</u>				
X	3,990.2	4,410.5	5,455.6	n.a.
M	3,011.9	3,842.1	4,571.9	n.a.
Balance	+978.3	+568.4	+883.7	n.a.
<u>Bulgaria</u>				
X	515.8	489.4	665.4	n.a.
M	227.8	244.7	289.5	n.a.
Balance	+288.0	+244.7	+375.9	n.a.
<u>Hungary</u>				
X	353.3	677.9	835.3	963.2
M	435.9	804.5	1,020.7	1,123.9
Balance	-82.6	-126.6	-185.4	-160.7
<u>Poland</u>				
X	912.2	909.1	1,059.8	1,111.0
M	633.7	579.1	713.2	877.4
Balance	+278.5	+330.0	+346.6	+233.6
<u>GDR</u>				
X	456.8	495.4	572.7	309.3
M	510.6	614.7	726.4	891.4
Balance	-53.8	-119.3	-153.7	-82.1
<u>Romania</u>				
X	1,060	1,180.0	1,510.5	n.a.
M	714.0	1,115.0	1,123.6	n.a.
Balance	+346.0	+65.0	+386.9	n.a.
<u>Czechoslovakia</u>				
X	692.1	653.7	811.9	994.6
M	489.9	434.1	698.5	591.7
Balance	+202.2	+174.6	+113.4	+402.9
<u>Soviet Union</u>				
X	4,577.0	4,956.8	7,281.8	8,246.0
M	4,122.2	3,745.0	4,052.3	4,076.9
Balance	+454.8	+1,211.8	+3,229.5	+4,169.1

Source: "Les relations économiques entre les pays socialistes européens du CAEM et les pays du Tiers-Monde: un tournant dans la politique d'aide économique?" (Statistical Annex). (Original sources: Rocznik Statystyczny handlu zagranicznego to 1978. For 1978 converted national data.)

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TABLE II - GEOGRAPHICAL PATTERN OF SOVIET TRADE WITH THE
NON-COMMUNIST DEVELOPING COUNTRIES (%)

	1970	1975	1978
<u>EXPORTS</u>			
Africa	46	29	22
Latin America	1	8	4
Middle East*	34	39	51
Other Asian Countries	19	24	23
TOTAL**	100	100	100
<u>IMPORTS</u>			
Africa	43	29	25
Latin America	6	26	19
Middle East*	11	23	29
Other Asian Countries	40	22	27
TOTAL	100	100	100

* Saudi Arabia, Cyprus, UAE, Iraq, Iran, Jordan, Kuwait, Lebanon, Syria, Turkey, North Yemen, South Yemen.

** Apparent trade, i.e. excluding residual

Source: National statistics compiled by Documentation Française in op.cit..

TABLE III - PERCENTAGE ANNUAL VARIATIONS IN EASTERN EUROPE -
THIRD WORLD TRADE (ON A \$ BASIS)

	Average 1970-1977	1975	1976	1977	1978
Bulgaria					
X	26.3	11.0	-5.1	36.0	n.a.
M	18.9	-27.3	7.4	18.3	n.a.
Hungary					
X	28.1	9.4	91.9	23.2	15.3
M	31.0	10.1	84.6	26.9	10.1
Poland					
X	21.3	39.0	-0.3	16.6	4.8
M	19.6	27.7	-8.6	23.2	23.0
GDR					
X	16.9	26.4	8.5	15.6	41.3
M	21.2	-3.9	20.4	18.2	22.7
Romania					
X	35.0	58.2	11.3	28.0	n.a.
M	36.2	15.7	55.7	1.1	n.a.
Czechoslovakia					
X	13.1	18.3	-4.8	23.3	22.5
M	17.5	-7.5	-1.2	44.2	-15.3
<u>Eastern Europe</u>					
X	23.1	29.1	10.5	23.7	n.a.
M	24.4	4.4	27.4	19.1	n.a.
<u>USSR</u>					
X	19.9	2.6	8.3	46.9	13.2
M	18.0	30.6	-9.2	8.2	0.6

Source: Data drawn from national statistics compiled by Documentation Française in op.cit.

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TABLE IV -- ESTIMATED BREAKDOWN OF EASTERN EUROPE - THIRD WORLD
TRADE BY MAJOR GEOGRAPHICAL AREAS IN 1977 (%)

	Africa	Latin America	Middle East(*)	Other Asian Countries	TOTAL
Bulgaria					
X	56	1	37	6	100
M	32	21	32	15	100
Hungary					
X	30	8	54	8	100
M	17	50	19	14	100
Poland					
X	35	25	30	10	100
M	19	41	12	28	100
GDR } X					
M }	34	25	30	11	100
Romania					
X	29	5	61	5	100
M	17	12	62	9	100
Czechoslovakia					
X	25	14	50	11	100
M	24	36	20	20	100

(*) Saudi Arabia, Cyprus, UAE, Iraq, Iran, Jordan, Kuwait, Lebanon, Syria, Turkey, North Yemen, South Yemen.

Source: Data drawn from national statistics compiled by Documentation Française in op.cit.

TABLE V -- RELATIVE SHARE OF NON-COMMUNIST DEVELOPING COUNTRIES
IN TOTAL TRADE OF THE COMMUNIST COUNTRIES (%)

	1970	1975	1978
Bulgaria			
X	6.5	10.7	10.6(1)
M	4.7	4.1	4.6(1)
Hungary			
X	6.4	6.4	9.7
M	6.2	6.8	9.2
Poland			
X	7.7	8.6	7.7
M	5.6	4.9	5.3
GDR			
X	4.2	4.4	5.7
M	3.9	4.4	5.4
Romania			
X	10.0	19.3	21.2(1)
M	6.6	13.0	15.8(1)
Czechoslovakia			
X	9.0	8.6	8.6
M	6.1	5.6	4.8
USSR			
X	15.9	13.8	16.1
M	10.9	11.2	8.2

(1) 1977

Source: Documentation Française, op.cit.