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Office of Research and Reports

CURRENT SUPPORT MEMORANDUM

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SUBJECT: Current Survey of USSR Foreign Trade Tactics with the Free World Since 1952.*

Summary

Shortly after Stalin's death a shift in Soviet foreign trade tactics with the Free World was noted. Under the Malenkov regime Soviet trade activities appear to have been designed to persuade the Free World that the USSR is ready to expand trade with non-Communist countries and is even willing to increase imports of non-strategic goods (foodstuffs and textiles). Soviet tactics along these lines have been witnessed in international meetings, bilateral trade negotiations, radio propaganda and official speeches. Although the Soviets can muster some evidence that their indicated willingness to procure non-strategic goods is based on the domestic consumers' goods program primary Soviet concern appears to be an attempt to hasten the relaxation of Free World trade controls. Because trade agreements and known orders indicate a continuing desire on the part of the USSR to secure Free World capital goods of a wide variety, it appears that in the foreseeable future the USSR does not intend to increase consumers' goods imports at the expense of capital goods procurement. Furthermore, increased Soviet exports of specific commodities, inter alia precious metals and petroleum, could point up the inability of the Soviets to market traditional exports and consequently to reach and maintain a greatly expanded level of trade with the Free World.

* Soviet foreign trade tactics are considered to be those activities engaged in by the USSR in order to accomplish its immediate international trade objectives. These objectives, though related to the long-range policy objectives of economic self-sufficiency and political advantage, veer and shift from time to time depending upon current economic, political, and military expediencies. Because of this multiple approach by the USSR to its international objectives, trade tactics may be evidenced in any of a multitude of Soviet activities.

Soviet trade tactics with the Free World since 1952 may be divided into four periods; January-March, April-September, October-December 1953, and January-April 1954. Such a division conveniently distinguishes four periods; pre-Malenkov, interregnum, attempt to implement the new approach to the Free World and current.

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January-March 1953

By and large, Soviet tactics during the period January-March 1953 were unspectacular though some minor shifts in tactics over previous periods were noted even before Stalin's death on 5 March. In January, for instance, the Soviets unexpectedly announced that they would participate in the East-West trade conferences of the Economic Commission for Europe (ECE) even though an invitation for them to participate was ignored the previous fall. 1/ Also in January the USSR accepted Iran's decision to terminate the Joint Soviet-Iranian Caspian Sea Fishery, although previously it had sought to continue the company's operations. 2/ In February, Stalin granted an interview to the Argentine Ambassador 3/ which undoubtedly paved the way for later Soviet-Argentine relations. Nevertheless, overall Soviet trade tactics with the Free World reflected a passive approach. Trade turnover (exports plus imports) between the USSR and the Free World, \$143 million, decreased to represent but fifty percent by value of the comparable 1952 first quarter period, \$274 million.

April-September 1953

April-September 1953, the so-called interregnum period, was notable for the emergence of Moscow's new approach to the Free World. Soviet tactics shifted from a more or less passive role to an extremely active one. Soviet cordiality was witnessed at international meetings and conciliatory gestures were made by the Soviets in spheres which they had previously approached with intransigence.

During this period, the frequency of Soviet radio propaganda broadcasts advocating East-West trade increased sharply. Reaching an average of thirty per week (22 June-19 July) broadcasts continued to average more than twenty-four per week through September. This compared to an average of only two commentaries per week from January through April. 4/

Soviet negotiations with Free World countries in the trade pact field also indicated tactical shifts. The USSR indicated a willingness to expand trade by signing trade pacts with some nations for the first time or for the first time in a number of years including agreements with France, Greece, Iceland and Argentina. In some instances the planned value of trade between the USSR and particular Western countries envisioned a trade level which in 1953-1954 would exceed the planned or actual value of such trade in 1952. In these trade pacts, the Soviet Union negotiated for increased imports of consumer goods especially food and textiles, and also appeared willing to export larger quantities of petroleum, coal, manganese and chrome to the Free World.

Apparently designed to create an atmosphere of diminished international tension, the Soviet line at the Geneva ECE trade consultations in April and the international aspect of Malenkov's August speech to the Supreme Soviet were in accord with overall Soviet tactics. At Geneva, Soviet representatives announced that the USSR during the following twelve months could increase its exports to the Free World by more than fifteen percent; 5/ a statement which at this time appears not to have been borne out in fact. In his speech to the Supreme Soviet, Malenkov stressed the importance of strengthening relations between the USSR and

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neighboring states, pointed out that the number of states with which the Soviet Union entertained trade relations was growing and indicated that business circles in the Free World countries were striving to remove discriminatory measures restricting international trade. 6/

Also significant during the April-September period was the beginning of the Kremlin's apparent desire to increase petroleum exports to the Free World. Trade pacts negotiated in July and August with Argentina, France, Greece, and Iceland included quotas totaling 1,400 thousand tons of petroleum products to be shipped by the USSR to those countries by the end of 1954. 7/ If carried out, the value of these shipments would be more than three times the estimated value of total petroleum exports to all Free World countries from the USSR in 1953. 8/

October-December 1953

Soviet trade tactics during the last quarter of 1953 were notable for several reasons. An increase in trade between the USSR and the Free World was evidenced. Certain commodities not ordinarily exported by the Soviets in large quantities, petroleum, platinum, and silver appeared on Western markets, and unusually large shipments of gold flowed from the Soviet Union to the Free World. In a speech, Soviet Trade Minister, Mikoyan, pointed out the role to be played by foreign trade in the domestic consumer goods program.

During the last quarter of 1953 Soviet trade with the Free World spurred to surpass the comparable 1952 period but not sufficiently to bring the year's level up to that of 1952. Soviet imports from the Free World during October-December were valued at \$164 million compared to \$109 million in 1952. On the same basis the value of the Soviet Union's exports stood at \$120 million compared to \$102 million in 1952. 9/ In large part this increased trade can be viewed as the result of the Soviets' new trade tactics gaining momentum. During this period the relatively large number of trade pacts concluded after Stalin's death commenced to be implemented. Trade appeared especially active between the USSR and those West European countries which had previously negotiated to export foodstuffs to the USSR.

In his report to the All-Union Conference of Trade Workers on 17 October, Mikoyan indicated that the USSR was to import four billion rubles worth of consumer goods abroad during 1953. 10/ Of this amount one-third or \$333 million (at the official rate of exchange) was to come from the Free World. Relating this indicated figure (\$333 million) to the subsequent actual 1953 Soviet import figure from the Free World (\$416 million) would mean that almost eighty percent of USSR's total imports from the Free World would have consisted of consumer goods. However, because the percentage of total Soviet imports from the Free World accounted for by consumer goods during the years 1950-1952 has been estimated as 8, 13 and 16 percent respectively and because there appears to have been no evidence of a radical shift in the commodity composition of Soviet imports from the Free World in 1953, such a high percentage of consumer goods imports (\$333 million) was highly improbable even though complete commodity trade statistics for 1953 are not yet available.

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Therefore, Mikoyan's statement now appears to have been purposefully misleading, extremely optimistic or, perhaps, based on an exchange rate other than the official one (four rubles to one US dollar).

The volume of Soviet Union's exports of petroleum products to the Free World was about eighty percent greater in 1953 than in 1952, amounting to 449 thousand tons and 250 thousand tons, respectively. ^{12/} In 1953 approximately seventy-five percent of all USSR exports of petroleum products to the Free World took place in the last six months of the year, furthermore, about fifty percent occurred in the last quarter alone. ^{13/} Favorable market conditions notwithstanding, such an abrupt increase in petroleum exports could be interpreted as the result of a change in Soviet trade tactics because the availability of many types of petroleum for export is not subject to seasonal variations.

During the last quarter of 1953 unusually large shipments of gold flowed from the USSR to the Free World. As a result, an estimate of total 1953 gold shipments to the Free World from the USSR amounted to between \$100 and \$150 million. ^{14/} This compares to 1950-1952 estimated annual average shipments of from \$50 - \$100 million. ^{15/} In part, these large exports of Soviet gold were apparently made in order to offset an accruing trade deficit unfavorable to the USSR. However, because of the large volume of goods exported by the USSR to the Free World countries in the last quarter of the year, an estimate of the USSR's trade deficit with that area approximated only \$40 million. Therefore, roughly \$60 - \$110 million* worth of Soviet gold was exchanged directly for Western exchange, primarily sterling and other hard currencies, which could be used by the USSR for a variety of purposes including payment for clandestine trade transactions, financing communist organizations and activities, and the establishment of a foreign exchange reserve.

During 1953 the USSR exported 94,900 troy ounces of platinum, valued at \$8.8 million to the United Kingdom. ^{16/} These facts are significant for several reasons. Platinum, in certain forms, is a strategic commodity, and 1953 was the first year since 1947 that the USSR exported platinum to the United Kingdom. Moreover, the indicated amount sold to the United Kingdom approaches a rough estimate of the total annual platinum production in the Soviet Union (100-125 thousand troy ounces). ^{17/}

January-April 1954

During the first four months of 1954 major Soviet trade tactics included aspects of bilateral concentration. Increased trade activities were noted between the USSR and the United Kingdom and to a lesser extent, West Germany. In February, an exceptionally large trade offer was made to British business men by the Soviet Foreign Trade Minister. Soviet radio broadcasts on East-West trade increased after the turn of the year and averaged more than thirty-five commentaries per week between January-April. Also noted during this period was the continuation of Soviet gold

* Plus or minus net additions or subtractions for other balance of payments items.

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and platinum exports, increased ship procurement by the USSR, and an apparent Soviet program of technical assistance and loans to Free World countries.

In Moscow on 4 February 1954, Soviet Foreign Trade Minister Kabanov handed a group of British businessmen a list of items specified for import from the United Kingdom in the years 1955-1957. ^{18/} The total value of these goods was estimated to be 4.5 billion rubles (\$1,125 million). If this trade offer were carried out its significance can be grasped by realizing that Soviet imports from Britain during each of the years 1955-1957 would average \$375 million or about three and one-half times the 1952 postwar peak of \$105 million. ^{19/}

On the one hand, impending relaxation of Free World trade controls and the high pitch of British (and other) businessmen's enthusiasm to increase trade with the USSR set the stage for a possible expansion of Soviet-British trade. On the other hand, excepting gold and other precious metal exports, doubt is presently cast on the USSR's ability to pay for expanded imports from Britain. Soviet grain shipments to the United Kingdom in 1952 accounted for about sixty percent of total Soviet exports to that nation. However, in 1953 Britain imported considerably less grain from the USSR. Furthermore, considering the favorable world grain supply, an effective demand for Soviet grain by the British does not appear forthcoming. In the absence of such a demand, Moscow would undoubtedly attempt to substitute other products such as petroleum in place of grain. Here again, the USSR's success would be more conditioned by Free World demand than by domestic availability for export.

Total trade turnover between the USSR and Britain through the first quarter of 1954, \$36 million, represented only a minor increase over the comparable 1953 period, \$34 million. However, because recent trade negotiations have included goods requiring relatively long production periods, possible ultimate deliveries would not yet be reflected in trade statistics.

Events in the last quarter of 1953 and early 1954 indicated an expansion of trade between the USSR and West Germany. West Germany does not have a trade and payments agreement with the USSR but there appears to be strong demand for some type of such agreement. Following preliminary trade talks in Geneva, a group of German industrialists and bankers prepared to go to Moscow to continue trade talks and to investigate the ramifications for establishing some type of trading arrangement. ^{20/} However, recent information indicates that the planned visit has been cancelled by the intervention of Adenauer. ^{21/}

Closer international relations with West Germany would be advantageous to the USSR. The Soviets might procure desired equipment, business animosities between West German and other Free World nations could develop, and the increased economic status of West Germany might be looked on suspiciously by other West European nations to the detriment of Western international cooperation.

After 1953 an abrupt increase in propaganda on East-West trade was noted in Soviet radio broadcasts. The average number of commentaries per week on this subject jumped from sixteen at the beginning of January

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to thirty-two by the end of the month, then reached and maintained an average of fifty-eight throughout February. 22/ Primary targets of these broadcasts appear to have been the Free World export control program, Kabanov's offer to British businessmen and economic relations between Middle and Far Eastern countries with other Free World countries.

The level of Soviet gold shipments to the Free World in the first four months of 1954 indicated continued heavy sales. For the period Soviet sales are estimated to have been between \$60 million and \$100 million. 23/ Therefore, the activity in Soviet gold sales to the Free World, noted during latter 1953, continued at least through the first four months of 1954.

In March, the bulk market price for platinum dropped from \$90 to \$84 per troy ounce. The reappearance of Soviet platinum on the world market was listed as a contributing factor. 24/ The inclusion of this commodity in several trade pacts concluded by the USSR with Free World countries in 1954 points up the Soviet's attempt to substitute certain commodities for traditional exports in order to balance trade.

Under trade agreements signed during the period July 1953-April 1954, the USSR negotiated to import more than 200 ships from Free World countries. 25/ Refrigerator and cargo ships bulk large in the types of vessels desired by the USSR. If these imported vessels were to supplement those ships produced domestically, it would seem to indicate that the Soviet Union intends to increase its international trade and/or improve its balance of payments position through invisible items. This of course does not preclude the possibility that the Soviets are attempting to clear domestic facilities for strategic production and to "indirectly produce" other items through import.

Soviet offers of technical assistance were originally made last July at a U.N. Economic and Social Council (ECOSOC) session in Geneva with a qualified offer of four million rubles, and later in February 1954 at the tenth meeting of the U.N. Economic Commission for Asia and the Far East (ECAFE) in Ceylon. 26/ 27/ Subsequent events imply that the type of technical assistance planned by the USSR involves the sending of Soviet technicians abroad rather than outright grants of money. The December 1953 Soviet trade agreement with India and the January 1954 agreement with Afghanistan both include aspects of technical assistance. The possibility of some type of technical assistance to Egypt also was indicated during early 1954. 28/

Aside from an attempt to woo underdeveloped countries towards the Communist camp, it appears that the Soviet technical assistance program is basically designed to serve as a propaganda platform particularly at future international meetings, and to enhance the prestige of the USSR both at home and abroad.

In August 1953 the USSR made its first postwar loan to a non-Bloc country in the form of a thirty million dollar credit to Argentina. 29/ This was followed in January 1954 by a \$3.5 million credit 30/ and a later \$600 thousand credit to Afghanistan. 31/ On February 6, 1954 the USSR granted Finland a \$10 million loan which, unlike the previous loans, was not for specific Soviet goods but rather an account on which Finland could draw gold dollars or any other agreed upon currency. 32/

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The Argentinean loan may be viewed as a corollary to the signing of the Soviet-Argentine trade agreement. Nevertheless, the loan puts Germany, the United Kingdom, and the United States all in competition to supply capital goods to Argentina on credit. The Finnish loan agreement appears as the culmination of a long series of negotiations designed to convert Finland's clearing ruble accounts into a more readily spendable form. Consequently the loan is better viewed as a compromise between Finland's desire to convert her ruble balances and the USSR's reluctance to make them convertible.

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