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THE RECENT RECORD IN SOVIET ECONOMIC GROWTH

CHAPTER V

EXTERNAL IMPACT OF SOVIET ECONOMIC POWER

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CHAPTER V

External Impact of Soviet Economic Power

I. Introduction

Upon completion of its post-war industrial recovery the USSR emerged from the economic isolation that had characterized its behavior through most of its history and since the mid-1950's has increasingly participated in the world economy. The continued emphasis given to economic growth by the Soviet leaders can be explained in terms of their desire to achieve economic, and especially technologic independence of the West. By the mid-1950's the Soviet were themselves using up-to-date techniques to produce the raw materials, fuel and equipment necessary for the sectors of industry which they deemed most important. Since they had already achieved the basic economic independence which was the goal of their earlier autarkical policies, they were now prepared to shift from an international economic policy that had been essentially passive and defensive to one which was active and aggressive. Whereas in the pre war period they had imported in order eventually to eliminate the necessity for imports, in the post war period they attained sufficient strength to engage on an increasingly large scale in

trade for political purposes in order to enhance their influence or achieve some noneconomic goal in some other part of the world.

The increasing use of international economic relations as a tool of Soviet international policy does not, of course, imply that the domestic economy had attained complete economic and technological independence of the West. On the contrary, the USSR today must import not only certain industrial materials of strategic significance, but, most important, it continues to be dependent on Western technological advances in many industrial sectors. And in the fields of agriculture and consumer goods the technological lag is greatest. Despite a costly and venerable program for the development and production of synthetics, the USSR still is dependent on imports of natural rubber for industry and transport. A primary goal of the present plan period, the expansion of the chemical industry, is dependent for its success on imports of Western chemical equipment which, embodying most recent technology, serve as prototypes to be copied, adapted and perhaps even improved at some future date. Although Soviet resource endowment is not all-encompassing and although Soviet techniques of production in many fields are still old-fashioned as compared with the West, the USSR has achieved

"equality with" and therefore technological independence of the West in those sectors of the economy which it considers of vital importance: military output and much of heavy industry.

Externally the burgeoning of Soviet economic power has been manifest in a volume of international trade which has grown more rapidly than either Soviet production or total world trade. Although still of minor significance in the total of the world economy, Soviet exports have increased from three percent to five percent of the total of world exports between 1950 and 1960. Soviet commodity trade has expanded at an average annual rate of about 11 percent since 1955, a pace more rapid than ^{either} that of GNP ~~and about equal to~~ ^{or} the growth of industrial production.

Meanwhile, the new, aggressive content of Soviet foreign economic policy was reflected in the increasing relative importance of Soviet trade with the Free World in the total of Soviet international trade. During the first half of the 1950's transactions with other countries of the Communist Bloc accounted for 80 percent of total Soviet commodity trade, exchanges with the Free World accounting for about one-fifth. Between 1955 and 1960, however, because trade with Western countries grew more rapidly than trade with other Bloc members, the share of the Free World rose from 20 to 30 percent, and in 1961 even reached one-third of total trade. Thus, between 1955 and 1961, while total

trade was growing at about 11 percent a year, trade with the Communist Bloc rose by only 7 percent, but trade with the Free World expanded at an annual rate of 20 percent. This westward shift in the orientation of Soviet international exchange was a measure both of the success of its new foreign economic policy and of the importance of imports from the West to the prevailing Soviet economic plan (1959-1965).

Table 1

Distribution of Soviet Foreign Trade
1950, 1955, and 1961

Millions US Dollars and Percent of Total						
	1950		1955		1961	
	Value	Percent	Value	Percent	Value	Percent
Total a/	<u>3,250</u>	<u>100</u>	<u>6,487</u>	<u>100</u>	<u>11,830</u>	<u>100</u>
Bloc	<u>2,637</u>	<u>81</u>	<u>5,107</u>	<u>79</u>	<u>7,778</u>	<u>66</u>
European Satellites	1,866	57	3,455	53	6,486	55
Communist China	576	18	1,392	22	918	8
Asian Satellites	195	6	261	4	374	3
Free World	<u>613</u>	<u>19</u>	<u>1,380</u>	<u>21</u>	<u>4,052</u>	<u>34</u>
Industrial West	<u>n a</u>	<u>n a</u>	974	15	2,152	18
Underdeve- loped Countries	<u>n a</u>	<u>n a</u>	354	5	1,769	15
Unaccounted for	<u>n a</u>	<u>n a</u>	51	1	130	1

a. Because of rounding, components may not add to the totals shown.

II. Trade as an Ideological Weapon

A. Laying the Foundation

Before World War II Soviet international economic relations were almost exclusively determined by their ability to contribute to Soviet industrial strength; the manner in which their foreign economic relations were conducted was determined by the Soviet desire for international respectability. Indeed the single compelling goal of all of Soviet policy was the attainment of industrial power at the most rapid rate consistent with domestic security. Exports represented a diversion of resources from domestic use which was suffered only because the resources could be exchanged for commodities whose contribution to industrial growth would be even greater -- modern machinery. At the same time the Soviet leaders, smarting from their treatment as international outlaws by the Western powers, strove so to comport themselves in international transactions as to prove their respectability. The Soviet Union was scrupulous in meeting all of its commitments on time and at par. It purchased almost entirely for cash, exporting gold to meet its debts when its export receipts were insufficient. When legal disputes arose over international commerce, Soviet courts strove for complete objectivity in their treatment of foreigners and in the nature of their decisions. By 1940 as a result of

diligent and unscrupulous measures to mobilize domestic resources, the USSR had achieved an impressive measure of industrial strength. And through diligent and scrupulous cultivation of its international commercial reputation, it succeeded in attaining a position of commercial respectability and in fashioning for itself a small niche in world trade.

During these formative years, exclusive concentration on overcoming its economic weakness inhibited the Soviet leadership from developing a more aggressive foreign economic policy. Certain hesitating steps along the path of economic diplomacy were attempted but not pursued. The fact that traditional Russian interest in the Middle East, for example, was sustained by the Communist regime was illustrated by offers of economic aid to Afghanistan, Turkey and Persia in the early 1920's. Indeed the straining Soviet economy constructed several textile plants on the basis of long-term credits, and provided technical aid to these countries, but such activities were necessarily limited by its own compelling domestic requirements.

The full development of trade as an ideological weapon awaited the growth of Soviet economic power. When, after World War II, through the use of subversion and armed force the USSR succeeded in creating an empire of Satellite states in Eastern

Europe, it was for the first time in a position of influence in an international market. The Soviet Union was therefore able to use commodity exchange as the chief means of consolidating and extending its position of power in Eastern Europe. The creation of a Communist state in Mainland China in 1949 further extended the scope of the international market organized on the basis of Soviet institutions. Because the USSR was the largest trading partner in this "Socialist world market," its transactions could not but influence the market.

Even this extension of its international economic relations to encompass other Socialist partners, however, brought little change in basic Soviet foreign economic policy. The role of international trade with socialist and capitalist countries alike remained essentially growth-oriented, valued for its contribution to the modernization and expansion of Soviet industry. Between 1948 and 1955 a variety of devices enabled the USSR both to extract a sizeable import surplus in its trade with the European Satellites and to effect a complete reorientation of the international commerce of these countries, away from former trading partners in Western Europe toward the Soviet Union and other Communist states. Through reparation deliveries and war booty the USSR acquired machinery and equipment estimated to have amounted to upward of 10 billion dollars. Pseudo-legal

techniques further enabled the USSR to arrange a redistribution of former German assets in Eastern Europe in such a way that it acquired a claim to as much as one-half of the current production of certain Satellite countries. By placing orders for equipment and materials in Eastern Europe the USSR was able to direct the course of industrial investment and thus the structure of industry in these countries to its own requirements. The Soviet Union became the main supplier of raw materials to Satellite industry and the prime market for their finished product. The ubiquitous presence of Soviet advisers throughout Eastern Europe at all levels of government and industry insured the efficacy of Soviet control.

The development of economic relations with Mainland China after the assumption of control by the Communist regime in 1949 followed quite a different path. The Chinese Communist party attained control over the Mainland without aid from the Soviet Union. From the outset economic relations between the USSR and Communist China were governed by a policy of mutual accommodation. Chinese agricultural products and raw materials were exchanged for Soviet industrial goods; the Soviet Union provided several long-term credits for purposes of industrial development and the services of scientists, technicians, and specialists of various kinds to advise the Chinese in their economic development.

From the Soviet viewpoint the expansion of trade with China provided an efficient and economic contribution to the economic development of the Soviet Far East.

B. Fashioning the Weapon

The shift to an aggressive foreign economic policy in the 1950's appeared to be abrupt, but actually was thoroughly conceived, having long been part of Communist strategy. The conceptual scheme of Lenin concerning the historically necessary course of political development, while ordaining that Capitalism ultimately give way to Communism, insisted that the underdeveloped countries need not in every case pass through the stage of Capitalism in progressing toward Socialism. And since the 1920's Soviet writers have looked forward to the day when the USSR would be in a position materially to aid these countries along the direct route to Communism. By the mid-1950's the Soviet leadership apparently felt that internal economic growth had so diminished the country's vulnerability that it was finally in a position to inaugurate an aggressive program of economic diplomacy.

Offers of foreign aid "without strings" to underdeveloped countries began to multiply in 1954 and 1955, and although a few minor credits were extended in these years, the Soviet aid offensive was on the whole skeptically received. The conclusion of a major military aid agreement with Egypt in late

1955,* and the prompt delivery of the equipment and technical personnel contracted for, gave the program its first real momentum. In the second half of the decade under the leadership of the USSR credits and grants were extended by other members of the Communist Bloc to underdeveloped countries for military and developmental purposes in increasing volume. In the military sphere, the form of Soviet aid varied from the training of officers in Staff Colleges of the USSR to the provision of modern jet fighters. Economic aid has similarly comprised a great variety of industries, ranging from a modern integrated steel mill to geologic surveys and small workshops. Trade agreements were signed providing for an exchange of the major exports of these countries against machinery, materials and technical advice from the USSR and Eastern Europe and cultural and technical delegations moved to and from the Bloc in growing magnitude. By 1961 the USSR had achieved a secure position of influence in the economies of Egypt, India, Afghanistan, Indonesia and Cuba and had established the basis for expanding relations with a large number of other countries. At the same time Soviet offers of scholarships for academic and technical training in the USSR provided an increasing flow of students and trainees from most of the underdeveloped countries of Asia, Africa and Latin America.

* Although the Bloc signatory partner was Czechoslovakia, the material provided was primarily Soviet.

The shift from a defensive foreign economic policy was also evident in Soviet relations with the European Satellites. In contrast to the early post-war period when the Satellites were forced to contribute heavily to Soviet economic reconstruction, in the late 1950's the Soviet Union provided sizeable quantities of both emergency and developmental aid to other Communist countries. The policy shift from the stick to the carrot in Soviet treatment of Eastern Europe was partially the result of the 1956 Satellite revolts; at the same time, however, the relative affluence of the Soviet Union made the policy shift possible.

Since 1954 Soviet economic aid to underdeveloped Free World countries has amounted to about \$3.5 billion, or about 70 percent of the total aid program of the Sino-Soviet Bloc. During the same period, the USSR gave nearly \$4 billion of aid, also in the form of credits and grants, to other Communist countries. While during the past two years new aid extensions to underdeveloped countries have slowed considerably, the opposite has been true of aid for the Bloc. In these years credits and grants for East Germany and the Communist Far East were probably at an all time high.

Soviet adventures in international finance have not been confined to the development of their foreign aid program, for in recent years the USSR has been active not only as a

lender of long and medium term capital, but also as a borrower. In contrast with its earlier history when Soviet trade with Western countries was conducted almost exclusively on a cash basis, since the initiation of the current seven year plan (1959-65) Soviet purchasing missions in Western Europe, Japan and the US have bargained as vigorously over the terms of the sale as over the price of the plant and machinery for which they were negotiating. With heightening competition among the engineering industries of the industrialized countries of the Free World, the difference between winning or losing a sizeable contract has often been determined on the basis of such financial terms. The USSR has consequently been able to finance a significant portion of Soviet imports from these countries since 1960 on the basis of 5 and even 7 year credits. By the end of 1962 net Soviet indebtedness to the Industrial West for such credit financing will probably be about half a billion dollars.

Deliveries of aid goods tend to lag behind the aid commitment. Soviet goods and services delivered to underdeveloped countries amount to about one-quarter of aid commitments, or to less than one billion dollars for the entire period since 1954. Considering the aggregate of Soviet borrowing and lending activities with non-Communist countries for the same period, the USSR has delivered unrequited exports to the underdeveloped West

and has received unrequited imports from the Industrial West. On balance net Soviet international capital movements with non-Communist countries have represented a net outflow of Soviet goods and services to the West of only about one-quarter of a billion dollars.

Perhaps the most dramatic use of international trade as a weapon of foreign policy occurred in mid-1960 in the course of the Sino-Soviet ideological dispute. At that time the Soviet Union precipitously withdrew most if not all of its technicians, numbering upward of 3,000, who were working in China to aid in Chinese industrialization. This act of economic warfare was followed by a veritable collapse in Sino-Soviet trade which by the end of 1961 had dropped to two-fifths of its 1959 level.*

Thus, in less than a decade Soviet international economic activities have ceased to be of a cautious, conservative nature and have rather become adventurous and at times even flamboyant. That these new policies have been successful is attested by the position of economic and political influence that the USSR has achieved in the international arena. Although Soviet international trade accounts for only a barely significant portion of total world trade, its ability to influence the

* Although a sizeable decline in Sino-Soviet exchange would have occurred in any event because of the serious economic difficulties in China, the unilateral withdrawal of Soviet technicians by itself fostered mistrust and caused a diversion of China's trade away from the USSR.

economies of certain countries and the behavior of certain commodity markets has been impressively demonstrated.

III. Trade with the Communist Bloc

A. The Institutions of the Socialist World Market

1. Insulation of the Domestic Economy

In a completely controlled economy in which production and consumption are planned at a level and of a composition to insure a very rapid rate of industrial growth, the prime function of foreign trade is to provide the commodities necessary to plan fulfillment which are not available from domestic sources. At the same time, because stability and predictability are necessary to successful planning, as well as to plan fulfillment, the foreign trade mechanism must operate in such a fashion as to protect the domestic economy from disturbing foreign influence.

The internal price system of a Communist country is so devised as to encourage the use of some commodities and discourage the use of others; in order to function successfully in the light of Communist goals, it must be insulated and isolated from foreign influences. For example, in order to restrict the demand for consumer goods in Bloc countries, relatively high prices are set for such commodities. In a free economy, high prices would direct a major part of commodity imports to the consumer sector, a development which would thwart Bloc military

and industrial growth imperatives. Strict controls over foreign trade, accordingly, are necessary in a Communist country.

Writers in the Communist Bloc have long pointed with pride to the fact that their economies are protected from the volatile and erratic price movements that characterize Western markets. Insofar as their pride is justified, it is equally true that the internal price systems of Bloc countries bear no relation to one another, for the barricades which protect the domestic systems from influences from the Capitalist world also operate to insulate them from developments within the Bloc.

This isolation of the internal price systems of Bloc countries has been achieved by means of rigid state controls over all international transactions. Foreign trade is a monopoly of the state and with other Bloc countries is subject to rigid bilateral balancing; with few exceptions, no cash moves, all transactions being settled by the movement of goods. International purchases and sales are conducted in prices and denominated in currencies which are different from those prevailing internally. The separation of the two price systems has been achieved and maintained by an elaborate system of artificial exchange rates and budgetary supports. As a result Bloc currencies are purely national currencies with no international

uses. The zloty is usable only within Poland, the forint only within Hungary and the Soviet ruble only within the USSR. Economic intercourse between a Communist country and a country of the Free World is negotiated in a Western monetary unit. Bilateral payments accounts are also maintained in a Western monetary unit and balances are settled in Western exchange. Trade among members of the Communist Bloc themselves, however, are conducted in terms of an accounting unit termed a ruble.

2. Foreign Exchange Ruble and Bloc Foreign Trade Prices

The ruble used in intra-Bloc commodity transactions, which can be termed the foreign exchange ruble or the devisa ruble, is purely an accounting unit. It is not represented by any certificate or piece of metal or paper as is the internal ruble. The devisa ruble is solely a conceptual standard for measuring value and need have no more relation to the internal ruble than the quart which is the unit of liquid measure has to the quart which is the unit of dry measure. As long as Bloc foreign trade prices are different from Soviet internal prices for the same commodity, the value of the foreign exchange ruble is different from the value of the Soviet ruble.

a. Nature of Bloc Trade Pricing Practice

Trade agreements, or protocols to existing agreements, are negotiated among countries of the Bloc annually.

These agreements simply list the commodities to be exchanged and the total value of trade to be achieved. It is left to trade delegations to decide in conference the details of price and quantity for each specific commodity to be exported or imported. These meetings are marked by strenuous bargaining and vigorous competition between the negotiating partners. The exporters of commodities for which the demand is strong -- for example, most Czechoslovak machinery, Polish coal, Rumanian oil and timber, and Soviet industrial goods and materials -- can command not only good prices but also "hard" commodities in exchange. In fact, because of the pervasiveness of shortages throughout the Bloc, a strong bargaining position is used more often to acquire scarce commodities than to achieve a more favorable price.

The negotiating partners go to these meetings armed with documentation about world market prices. This involves information about prices at which the commodity in question has actually been sold recently in specific transactions in the West. In fact, in the Ministry of Foreign Trade of most Bloc countries, there is a division which does nothing except collect such price information. Thus world market prices do form the basis for Bloc foreign trade prices. These prices (the dollar price multiplied by the official exchange rate of the ruble for the dollar) are the point at which bargaining begins. Strictly,

however, there is no such thing as a single world market price. The price at which the UK buys bacon from Denmark for example, may be quite different from the price it pays for bacon from New Zealand or Argentina. Thus the Bloc exporter can always find a relatively high Western price to support his claim, but the importer can also document from Free World sources his claim to a lower price. The price finally agreed on depends on the relative bargaining strength of the two countries as colored by their needs and availabilities.

Once the price has been agreed on, it remains in force for the entire year, and often for several years. It not infrequently happens, however, that no agreement on prices can be reached. Then trade continues, being recorded at last year's prices, subject to final adjustment when agreement is at length reached. In fact it appears that the difficulties attendant on reaching agreement on price have been as important as the necessity of stability and predictability for planning purposes in keeping prices constant over several years.

b. Historical Course of Bloc Trade Prices

Although Bloc trade prices have been determined at bargaining sessions since the end of World War II, the relative strength of the bargaining partners has changed. Immediately after the war the USSR announced that commodities would be

exchanged within the Bloc at world market prices. At this time, Satellite trade representatives, who had no way of knowing what these prices were, could only take the word of the Soviet representatives. They began to realize, however, that the prices of Soviet exports were very high and that the prices of their own exports were low. They themselves undertook some market research and thereafter went to the negotiations possessed of documentation. In this way the Satellites probably have gradually forced Bloc trade prices to their world market levels. There is some evidence to indicate that in the late 1940's most Bloc trade prices were considerably above world market prices, with Soviet export prices being higher than Soviet import prices. Since then, Bloc trade prices seem on the average to have declined.

3. The Exchange Rate

In March 1950 by an appropriate definition of its gold content, the USSR set the rate at which the ruble was to be measured against other currencies at the equivalent of \$0.25, and maintained this official exchange rate until 1 January 1961. At this rate the ruble was considerably overvalued in the sense that 25¢ in the US would buy much more than would one ruble in the USSR. A rate which overstated the value of the ruble was probably chosen for purposes of prestige. That the rate was purely arbitrary had no significance to the trading partners of the USSR, however, for those in the Free World never had occasion

to use it,* and those in the Bloc used it only for accounting purposes. Other Communist countries similarly determined at an arbitrary level the rates at which their currencies were to be measured against the dollar and the ruble.

Table 2

Foreign Exchange Rates for Commercial Transactions
for Currencies of the Soviet Bloc
1954-60 and 1961-62

Country	Unit of Currency	Rate of Exchange			
		1954-60		1961-62	
		In terms of US\$1	In terms of US\$1	In terms of US\$1	In terms of US\$1
Albania	Lek	50.0	12.5	50.0	55.56
Bulgaria	Lev	6.8	1.7	1.17 a/	1.3 a/
Czechoslova- kia	Crown	7.2	1.8	7.2	8.0
East Germany	Ostmark	2.2	0.5	2.22 b/	2.47 b/
Hungary	Forint	11.7	2.9	11.74	13.04
Poland	Zloty	4.0	1.0	4.0	4.44
Rumania	Leu	6.0	1.5	6	6.67
USSR	Ruble	4.0		0.9	

a. Effective as of 1 January 1962. Official rates during 1961:
6.8 leva per US\$1, 7.56 leva per 1 ruble.

b. Although this is the official rate, the rates in use since 1959
are as follows: 4.2 DEM per US\$1; 4.67 DEM per 1 ruble.

* The exceptional case of non-commodity transactions is discussed
below.

Because these official exchange rates were set with the intention of insulating the internal economy from external influences with no regard to relative price levels, the conversion of export receipts or import payments into the domestic currency, an adjustment necessary for maintaining domestic accounts, resulted in foreign trade prices which bore no relation to domestic prices. In general internal Bloc prices when converted at official rates were higher -- but higher by varying degrees -- than Western prices. Consequently, the domestic equivalent of export receipts was in most cases considerably below the internal price of the commodity, and the opposite was true of import payments. These price differentials thus resulted in price losses on exports and profits on imports which were absorbed by the country's budget.

Because of the existence of these price differentials, and especially the negative differential characteristic of exports, Bloc exports have been termed "subsidized." This is a very special type of subsidy, however, and results solely from the existence of an arbitrarily high foreign exchange rate. Moreover, exports to other Bloc countries as well as exports to the West would be "subsidized" by Communist countries in this sense, and necessarily so as long as Bloc foreign trade prices remained lower than internal prices of member countries.

The only Bloc exports which would not be subsidized because of the artificially high exchange rate would be exports

of those commodities whose internal price in the exporting country was equal to or lower than the export price converted into the domestic currency at official rates. Thus if the legal price of some raw material within the USSR were 100 rubles per ton and if this commodity were exported by the USSR at \$20, or 80 rubles, per ton a price loss of 20 rubles would be involved. This price loss is directly attributable to the use of a 25¢ ruble exchange rate when the implicit exchange rate appropriate for this commodity is at the level of 5 rubles to the dollar, or 20¢.

Whether the total of price differential losses borne by the budget is greater or less than the total of profits depends on the structure of the internal price system of the Communist country as well as on the level of the exchange rate. If the isolated internal price system is such that, at the official exchange rate, the purchasing power of the currency is overvalued, but considerably more overvalued in regard to some goods than others, then the structure of the internal price system, as well as its level, is distorted from that of the world market. Under such conditions -- which seem to characterize the internal price systems of Communist countries -- a change in the exchange rate by itself could decrease the gross price differential loss and profit, but would not eliminate a net profit or loss. A realistic exchange rates would be one

representing the average relationship between internal ruble prices and world prices in dollars or sterling for goods entering international trade. Given a distorted internal price structure, however, the variation of individual ruble-dollar price relationships around the average would be large and probably skewed, resulting in some net price differential for the sum of price losses and profits on trade.

The 1961 revision of the official exchange rate of the ruble, which was ostensibly an appreciation of the ruble in terms of Western currencies, was probably undertaken for the purpose of reducing the gross price differential profit and loss to be borne by the Soviet budget on account of foreign trade. By redefining the gold content of the ruble, its relationship to the dollar was changed from the equivalent of 25¢ to \$1.11, or from 4 rubles to .9 rubles to the dollar. Ostensibly the value of the ruble was raised by 4.4 times. Since the USSR revised its internal price level simultaneously, however, by dividing all prices by 10, the exchange rate of the ruble as a measure of relative purchasing power was in fact depreciated. The new exchange rate, however, appears to be more realistic as a measure of relative price levels. While considerations of prestige were probably not absent in setting the value of the ruble higher than the dollar, the degree of overvaluation has certainly been considerably reduced if not wholly eliminated.

In setting the foreign exchange rate of the ruble at a more realistic level, the amount of price differential profits collected on imports by the budget, and price differential losses paid by the budget on exports, would be considerably reduced. In fact, at the new exchange rate differences between internal and external prices will reflect almost exclusively distortions in the Soviet price structure. Soviet planners are therefore in a position to note the commodity composition of their foreign trade which involves the most extreme price differentials and to examine the reasons for these differentials in the interests of economic efficiency and maximum productivity. Although in the past Soviet planners have been little concerned with relative costs in determining the composition of their foreign trade, pressure on growth rates will increasingly lead toward rationalization of sectors of their economy.

4. Non-Commercial Transactions

Before 1957 the countries of the Communist Bloc maintained a single schedule of exchange rates, the rates being all consistent with one another and with the rate of 4 rubles to the dollar. The rates were applicable to both commercial and so-called noncommercial transactions. The distinction between these two rests on the difference between transactions involving

commodities and services exchanged with someone outside the country and transactions involving goods and services sold to and consumed by a foreigner within the country's borders. Commercial transactions include the international purchases and sales of commodities and commodity transport. Noncommercial transactions include receipts and expenditures by international tourists and by embassies, receipts and expenditures for passenger transportation and international telephone and telegraph services, and individual and institutional remittances. Because Bloc credit transactions -- borrowing and lending -- relate to goods and are directly effected in goods, commercial exchange rates apply both to the receipt of the credit and to the payment of interest and principal.*

Beginning in early 1957 Bloc members individually announced new official exchange rates for noncommercial transactions. In most cases, these new rates represented a depreciation of the Bloc currency in terms of Western currencies (for example, Western tourists were able to buy Soviet rubles at the rate of 10 to US \$1 compared with only 4 to US \$1 before 1957) and, except for Poland, an appreciation of Satellite currencies in terms of the Soviet ruble. Some Satellite currencies were appreciated, others depreciated, in terms of other Satellite currencies. The reason for the new rates for noncommercial purposes in relation to the West seemed to lie in an attempt on the

* Bloc credit transactions almost always are credits to finance the exports of the lending country. The commodities involved are usually valued at the prices prevailing in the trade agreement between the two countries concerned. Similarly, repayments are effected in goods at the prices of the current trade agreement.

part of all Bloc members to increase earnings of Western currencies by encouraging tourists from the West. The new rates in relation to other Bloc countries seemed to represent an attempt to make intra-Bloc settlements of noncommercial accounts more equitable by relating the cost of currencies to their various purchasing powers.

Whereas Bloc commercial exchange rates were all internally consistent with one another and with Free World currencies, these new noncommercial rates in themselves involved each Bloc member in a system of dual rates. The noncommercial exchange rates proclaimed by any one country represented one internally consistent set in relation to all Free World countries and a second internally consistent set for all Bloc countries, but between the Bloc and the West they were not consistent. For example, the Polish zloty exchanged at a rate of 24 to US \$1 for these purposes and the Soviet ruble at a rate of 10 to US \$1, but the noncommercial rate between Poland and the USSR was set at 1.5 zloties to the ruble rather than 2.4 zloties which would be consistent with the dollar rates. These discrepancies could be maintained only because of strict controls over the uses of domestic currencies by all Bloc members.

All transactions among Bloc countries are finally settled in goods. When, for example, Soviet specialists or technicians are sent to a Satellite country, the latter pays the

USSR for their services eventually by exporting commodities to the USSR. Each Bloc country maintains with every other member a noncommercial account through which the value of these non-commodity transactions is recorded. At the end of each year these accounts are balanced against one another, the net debit or credit being transferred to the commodity account for settlement.

Because of their nature noncommercial transactions involve purchases and sales at domestic prices rather than at foreign trade prices and because the internal price levels of individual Bloc members are not only unrelated to one another but vary considerably, the previous system of clearing noncommercial balances at commercial exchange rates put at a disadvantage those countries whose currencies were least overvalued or whose internal prices were relatively low. Since the Soviet ruble was appreciated in terms of only 1 Satellite currency but depreciated in terms of 5, it seems likely that the net effect on intra-Bloc commodity flows of the noncommercial exchange rate revisions would have been a reduction in Soviet purchasing power in the Satellites.

In 1961 after the revision of the Soviet official exchange rate, the distinction between a commercial and non-commercial rate for transactions with Western countries was eliminated, the new rate applying to tourist and embassy

expenditures as well as to commodity transactions. The original schedule of noncommercial rates vis-a-vis other Bloc countries was retained, however, the only change being the appreciation of the ruble by 10 times to reflect the change in internal Soviet prices.

Table 3

Foreign Exchange Rate for Non-Commercial Transactions
for Currencies of the Soviet Bloc

Country	Unit of Currency	Rate of Exchange	
		In terms of US\$1	In terms of 1 Ruble a/
Albania	Lek	150 b/	100 c/
Bulgaria	Lev	1.17 d/	0.89 d/
Czechoslovakia	Crown	14.34 b/	11.6 c/
East Germany	Ostmark	4.2 a/	3.9 c/
Hungary	Forint	23.48 e/	14.0 c/
Poland	Zloty	24.00 g/	15.0 c/
Rumania	Leu	15.00 h/	9.7 c/
USSR	Ruble	0.9 c/	

a. Before 1 January 1961 the ruble exchanged for one-tenth of these rates. b. As of 1 July 1957. c. As of 1 January 1961.
d. As of 1 January 1962. e. As of 1 January 1958. f. As of 1 April 1957. g. As of 11 February 1957. h. As of 11 May 1960.

The 1957 adjustment of intra-Bloc noncommercial rates represented the first step taken by Bloc countries to relate exchange rates of relative purchasing powers. As such it also represented a retreat from the philosophy of "insulation and isolation" and from the concept of an absolute internal economy unrelated

to that of the outside world. The 1961 revision of the basic commercial rate of the ruble in terms of Western currencies was the second step in the same direction. At the least these moves are evidence of a recognition of the impossibility of absolute insulation without complete cessation of all economic intercourse. Settlement of noncommercial transactions on an equitable basis requires the use of an exchange rate which reflects relative purchasing power. A meaningful exchange rate can serve many other useful purposes, however, and is essential for determining the relative merit of an expansion of domestic output as opposed to an increase in imports of a given good. An economy committed to high growth rates must be increasingly concerned with all aspects of economic efficiency, including the efficiency of its foreign trade operation.

B. Trade with Eastern Europe: from the Stick to the Carrot

1. The Period of the Stick

In the early post-war period Soviet foreign economic policy was dominated by two related goals: the rapid restoration of domestic economic strength and the creation in Eastern Europe of a Soviet-controlled buffer area to protect the exposed frontier. The immediate post-war years were a period of plunder, the USSR taking as the victor's spoils in former enemy countries productive equipment of all kinds, dismantling factories, transport facilities, and workshops for transfer to the Soviet Union. In addition to such

war booty, the USSR took as reparations title to much German property located in Hungary, Rumania and Bulgaria, thereby obtaining control over several hundred producing enterprises. These former German assets provided the basis for the Soviet-Satellite joint-stock companies, formed in 1946-1948, through which the USSR acquired control over a major share of Satellite mining, manufacturing, transportation and finance. Reparations deliveries from the current output of these and other plants were important not only to the restoration of the Soviet economy but provided the mechanism for obtaining a high degree of control over economic activity in Eastern Europe. East German reparation deliveries during 1945-50, for example, amounted to about \$9 billion while commercial exports to the USSR aggregated only \$5.5 billion.

After the initial period of plunder when Soviet exploitation of resources and capital assets had threatened to destroy the economic foundations of Eastern Europe, the pattern of Soviet treatment shifted to one more consistent with its long-run goal of consolidating its domination of the area. Through reparation deliveries and export orders, Communist party pressures and the presence of Soviet advisors in key ministerial and production posts, Satellite trade was redirected from its traditional Western orientation into Soviet Bloc channels.

Satellite economies were developed in such a way as to make them dependent on the Soviet Union for markets and raw materials. Priority development of heavy industry and neglect of traditional agricultural consumer goods production narrowed the basis for Satellite trade with the West. The economic reorientation of Eastern Europe was formalized by the formation in 1949 of the Council for Mutual Economic Assistance (CEMA) to coordinate internal economic plans and foreign economic relations of the Soviet Bloc.

The shift in the pattern of trade and production of Eastern Europe subjected the Satellite economies to severe strains. In addition Soviet exploitative policies and autarkic development plans overtaxed the productive resources of the area and caused much resentment against local governments as well as against the USSR. In 1953 the new Kremlin leadership, recognizing that the stability of the area was threatened, began to relax the more burdensome controls and lighten its iron demands. Soviet advisers were withdrawn, discriminatory pricing practices were revised and the dissolution of the joint stock companies was initiated. The Soviet leadership also urged some modifications in Satellite economic plans to provide some concessions to consumer demand.

The adjustments made in Soviet-Satellite relations were not adequate, however, to reverse the growing disproportion between the industrial capacity being created in Eastern Europe

and the raw materials, fuel, and power resources necessary to support it. The Soviet Union thus either had to divert increasing quantities of its own raw material resources to bolster the lagging Satellite economies or risk Satellite economic reorientation toward the West. The Soviet Union chose to do neither, and as a result, the initial measures taken were wholly inadequate to avert the further deterioration in the economies of the Satellites which contributed directly to the Polish and Hungarian upheavals in the fall of 1956.

2. The Period of the Carrot

Following the 1956 uprisings the USSR sought to restore political and economic stability to the Satellites by offering major economic concessions and by removing the more blatant inequities in Soviet economic dealings with several of the Satellites. Concessions included debt cancellations, eliminating discriminatory pricing practices, and the like. Most important, the Soviet Union agreed to assist the Satellites in overcoming dislocations caused by the Polish and Hungarian events and generally to assist their economic recovery. Thus, the Soviet Union extended large emergency credits in the form of commodity deliveries and foreign exchange (see discussion on credits below). It also negotiated supplementary trade agreements notably with East Germany and Bulgaria, assuring those countries

of additional markets for the products of depressed industries and guaranteeing them additional supplies of industrial raw materials and foodstuffs generally in short supply.

Following the attainment of relative economic stability in the Satellites, the USSR in 1957 and 1958 renewed its efforts to achieve economic coordination in Eastern Europe. New long-term economic plans of the Satellites for the period 1961-65 were to be dovetailed with the new Soviet seven-year plan (1959-1965). Economic coordination was to be effected on a sector-by-sector basis, with priority going to the development, on a national or regional scale as appropriate, of an adequate raw material base for the Soviet Bloc as a whole. In support of the economic coordination program, the Soviet Union negotiated five-year (1961-65) trade agreements with each of the Satellites, in which it undertook to be the principal supplier of Satellite import requirements for industrial raw materials, fuels, and foodstuffs, and the principal export market for Satellite manufactures.

The USSR has since made continued efforts to strengthen the Satellite economies within the framework of the CEMA integration program, increasing supplies of raw materials, furnishing economic development loans and emergency credits where needed, encouraging joint Satellite investment projects, etc.

That the Soviet leadership is now far from satisfied with the progress of the Satellite economies and the integration program is evident in the decision in June 1962 to create a new Executive Directorate to oversee CEMA and the appointment to that body on a full-time basis of the men who have been the chief economic planners of the USSR and some of the Satellites. Indeed, the appointment of top-level planners would appear to indicate that a major effort will be made to correct the "unproductive expenditures of material resources [which] held back . . . growth . . .," to assist the limping agricultural economies of the European Bloc, and to strengthen the Soviet Bloc economy in general. Given Khrushchev's self-imposed economic competition between East and West, the task of making the CEMA economic grouping more viable becomes even more urgent in the face of the rapid strides being made by the European Common Market:...

3. Economic Assistance

Varying use of the carrot and stick by the USSR with respect to its European Satellites is perhaps best exemplified by its economic assistance policy (or lack thereof). During the first decade following World War II when unrequited Soviet imports (reparations payments, war booty, profits from Soviet-Satellite joint-stock companies, etc.) could be counted in the tens of billions of dollars, the USSR sporadically extended credits to the Satellites as an ad hoc response to particular situations.

The bulk of the economic assistance extended by the Soviet Union during the period 1945-1955, which amounted to about \$1.5 billion, consisted of credits to Poland and East Germany, in the latter case, apparently in response to the unrest in East Germany in 1953.

During the year of the revolts and in the succeeding years, (1956-57) the USSR provided economic aid to the Satellites amounting to about \$1.2 billion,* or almost as much as that provided in the previous decade. In addition, the USSR wrote off

Table 4

Soviet Economic Credits and Grants Extended
to the European Satellites
1945-1962

Country	Million US\$								Total
	1945-55	1956	1957	1958	1959	1960	1961	1962	
Albania	106		48		93				247
Bulgaria	198	92	72	44		162			568
Czechoslovakia	48		14						62
East Germany	363	20	260	235			475	a/	1,353
Hungary	43	41	262	35					381
Poland	614	300							914
Rumania	94	95							189
	1,466	548	656	314	93	162	475	a/	3,714

a. The USSR extended a credit to East Germany in February 1962 valued at \$310 million. It is believed that this was part of the \$475 million credit extended in 1961.

* Excluding Soviet credits for the purchase of Soviet holdings in joint-stock companies.

various debts for Soviet aid extended before 1956 and for the repurchase of Soviet shares in the joint Soviet-Satellite companies estimated at a value of \$1 billion. Also, the Soviet Union agreed to renegotiate to the advantage of the Satellites previous agreements concerning prices for "commercial and noncommercial services," costs of Soviet troop maintenance, and certain transfers of Soviet property. The estimated value of these additional concessions was almost \$1 billion. Other benefits which have accrued to the Satellites since 1956 include more favorable loan repayment terms.

The 1956-57 period thus represented the pinnacle of Soviet largesse with respect to Eastern Europe, and it was essentially a rescue operation. Nevertheless, despite the decline in credits to the European Satellites since that time, these years marked the end of gross Soviet exploitation of the area and the beginning of Soviet recognition that its own self-interest lay in the economic well-being of the Soviet Bloc as a whole. With the exception of aid to East Germany, practically all Soviet economic assistance to the Bloc since this period has been in the form of economic development credits to the lesser developed countries.

4. Trade

Spurred by the "closed Bloc" policy of Stalin, Soviet trade with the European Satellites increased rapidly in

the early post war period -- from approximately \$400 million in 1946 or less than one-third of total Soviet trade to more than \$3 billion in 1953 or more than half of total Soviet trade of \$5,700 million. More importantly, the orientation of the Satellite countries' trade shifted radically toward the USSR. By 1953, the share of the USSR ranged from one-third of the foreign trade of Hungary and Poland to nearly three-fifths of Bulgarian and Albanian trade (see Table 6). The failure of the Soviet Union to provide an expanding market for Satellite exports or a reliable source of raw materials is reflected in the decline of the share of the USSR in the Satellites' trade between 1953 and 1955. Since then, however, Soviet-Satellite trade has undergone a substantial increase, averaging more than 11 percent annually through 1961 when it reached \$6.5 billion (see Table 5). The growth of Soviet-Satellite trade has been particularly rapid since the beginning of the Soviet Seven-Year Plan Period (1959-1965), and is expected to be maintained throughout the period, engendering an even greater dependence of the Satellites on the USSR.

Table 5

Soviet Trade with the European Satellites
1955-61

	Million US\$						
	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>
Exports	1,792	1,768	2,550	2,320	2,950	3,118	3,420
Imports	1,663	1,815	1,915	2,206	2,519	2,819	3,066
Total a/	<u>3,455</u>	<u>3,583</u>	<u>4,465</u>	<u>4,526</u>	<u>5,470</u>	<u>5,937</u>	<u>6,486</u>

a. Because of rounding, components may not add to the totals shown.

Table 6

Soviet Share in European Satellite Trade
1953, 1955, 1960, and 1965

Country	Percent of Total			
	1953	1955	1960	Estimated 1965
Albania	57	40	53	<u>n a</u>
Bulgaria	56	46	53	54
Czechoslovakia	36	34	34	38
East Germany	<u>n a</u>	38	43	45
Hungary	34	22	29	36
Poland	33	32	30	35
Rumania	<u>n a</u>	49	40	44

In recent years, the bulk of Soviet trade with the Satellites has been conducted with the more highly industrialized countries of East Germany, Czechoslovakia, and Poland; trade with these countries accounts for more than two-thirds of total Soviet-Satellite trade. These three countries as well as Hungary provide the USSR with about three-fourths of total Soviet imports of machinery and equipment. These imports supply a substantial share of total Soviet requirements for the plan goals of certain sectors, e.g., transport, metallurgy, chemicals. By the same token, these are the countries which account for a large share

of the Soviet fuels and raw materials exported to the Satellites. Soviet trade with the lesser developed Satellites of Rumania and Bulgaria is of a different nature, involving generally the export of Soviet manufactured goods in exchange for raw materials. Generally speaking, however, Soviet-Satellite trade can be represented as an exchange of Soviet fuels and raw materials for Satellite machinery and equipment and finished consumer goods.

C. Trade with China: From the Carrot to the Stick

From the very beginning of Communist rule in China, Soviet-Chinese trade increased at a rapid pace. Throughout most of the decade of the 1950's China was the USSR's most important trading partner and Soviet economic policy toward China was reflected in the economic, technical, and military assistance provided to China by the USSR. The keystone of Soviet-Chinese economic relations was in the 291 major industrial projects scheduled to be built in China through 1967 using Soviet machinery, equipment, and technical assistance.

Such Soviet support as has been provided for China's drive to become a major industrial and political power has been motivated by a desire to bolster an alliance designed to enhance the strength and world power position of the Soviet Union and the Bloc as a whole. Thus, until recently, the economic relationships between the two countries could be characterized as one of

mutual accommodation. The intrusion, however, of ideological and political differences into Sino-Soviet economic relations led to the mass withdrawal of Soviet technicians from China in mid-1960. The resulting mistrust between the two trading partners, combined with rapidly worsening economic conditions in China and the apparent refusal of the USSR to provide more than a modicum of economic assistance, (or the refusal of China to make the ideological obeisances which might be the price of such aid) caused Sino-Soviet trade to decline sharply. In 1961 this exchange was only two-fifths of the 1959 peak.

In view of the ambitious industrialization program envisaged by the Chinese leadership, Soviet financial assistance to China cannot be characterized as having been extensive. While the value of the equipment involved in the projected 291 industrial installations has been estimated at \$3.3 billion, the payment for much of this equipment was apparently scheduled out of current Chinese export earnings. During the first half of the 1950's the USSR extended China some \$1.3 billion in financial assistance, only part of which was designated for economic purposes. Practically all of these credits had been utilized by the Chinese by 1956 and the Soviet equipment moving under the technical assistance program since that time has had to be financed out of current Chinese export earnings. No other assistance was provided until 1961 when the USSR, recognizing

that China could not settle its accumulated trade indebtedness of \$320 million, funded this debt over a period of five years. Apart from providing \$40 million worth of sugar on credit, however, the USSR did nothing to facilitate China's acquisition of badly-needed commodities and foodstuffs in 1961. Thus, the total of Soviet credits extended to China since 1950 has amounted to about \$1.7 billion, a sum roughly equivalent to Soviet credits and grants extended to the small Asian Bloc countries of Mongolia, North Vietnam, and North Korea.*

Table 7

Soviet Trade with Communist China
1950-1961

- Million US\$

<u>Year</u>	<u>Exports</u>	<u>Imports</u>	<u>Total</u>	<u>Balance</u>
1950	388	188	576	+ 200
1951	476	332	808	+ 144
1952	554	414	968	+ 140
1953	698	475	1,173	+ 223
1954	759	578	1,337	+ 181
1955	748	644	1,392	+ 104
1956	733	764	1,497	-31
1957	544	738	1,282	-194
1958	634	881	1,515	-247
1959	955	1,100	2,055	-145
1960	817	848	1,665	-31
1961	367	551	918	-184

* A substantial increase in extensions of credits and grants to these countries by both the USSR (about \$500 million in 1960-61) and China (about \$300 million) may have been attributable to Sino-Soviet competition for the fealty of these countries. The outcome of the competition with respect to Mongolia appears to have been resolved in favor of the USSR as testified by the recent adherence of Mongolia to CEMA.

The statistics of Sino-Soviet trade reflect the vagaries of Soviet-Chinese economic relations (see Table 7). These show a relatively steady increase in the volume of trade between these two countries until 1959 and then a sharp decline beginning in 1960. As indicated in the table, the level of trade in 1961 marked a 10-year low in Sino-Soviet exchange. Reflected in the trade balance figures is the Chinese utilization of Soviet credits in the early period and repayments beginning in 1956. According to Chinese budget figures, repayments by the end of 1960 amounted to some \$800 million, leaving about \$900 million yet to be repaid.

The commodities exchanged in Soviet-Chinese trade represent essentially an exchange of Soviet machinery and equipment for Chinese raw materials and consumer goods. This pattern reflects Soviet-Chinese trade throughout the period until 1961 when Soviet exports of equipment and Chinese exports of food dropped sharply as a result of Chinese economic difficulties.

In 1961, Soviet exports of machinery and equipment to China dropped by some \$400 million and amounted to less than 30 percent of total exports while Soviet exports of petroleum, maintained at the same absolute limit, rose to almost 50 percent of total Soviet exports. Soviet imports of food dropped almost to zero. Imports of manufactured consumer goods also declined somewhat, but accounted for almost two-thirds of the total in a smaller volume of total imports from China.

IV. Trade with the Free World

A. The Traditional Pattern

1. Unchanging Commodity Composition of Trade with Industrial West

Soviet economic intercourse with industrialized non-Communist countries has always represented a time-saving device, for trade has made possible a rapid shift from an obsolete to a modern, more productive technology in a large number of industries. So long as some part of the Soviet economy lags technologically behind the West, the USSR will always have available a ready device for buoying its growth rate. In shifting to a more advanced -- i.e., more productive -- technology, the Soviet Union borrows all the resources, including time, that must go into the research and development of more efficient techniques.

Soviet trade with the Industrial West today comprises the same type of exchange with the same kind of problems as that of the late 1920's. Soviet agricultural goods and raw materials are exported to pay for the technology embodied in Western machinery. In addition Soviet exports must earn sufficient foreign exchange to pay for the services of Western transport facilities and certain industrial raw materials not produced in sufficient quantity within the USSR. Any economy whose resources are consistently as fully utilized as are those of the USSR is subject to overt or repressed inflationary pressures. In the case of the USSR repressed inflation has long been manifest in the chronic tendency of imports

to outrun exports with the accompanying chronic necessity for an export of gold.

The fact that the commodity composition of Soviet trade with the Industrial West has remained virtually unaltered over the past three decades, despite great changes in the volume and composition of domestic output, is indirectly the result of these chronic inflationary pressures. The Soviet economy, subject to full resource utilization, high investment and rapid growth, is taut; it is an economy of shortages, one which we would describe as a "sellers' market." Because of pervasive and persistent shortages, no energy need be devoted to selling or marketing; rather, buyers seek out sellers, often on a black market with the offer of illegally high prices. Although the Soviets have proven themselves to be experienced bargainers in a situation of bilateral monopoly, they remain inexperienced sellers in a competitive market of differentiated products. Thus, although their own output of highly fabricated goods, especially producers' goods, is now a much larger proportion of total product than it was 3 decades ago, their exports to the developed countries of the West continue to be composed almost entirely of raw materials. The composition of their exports has been stable because they are unable -- or unwilling -- to develop the selling and service organization necessary to market their highly fabricated products. It is easier, and therefore in the short-run yields a greater

return in net foreign exchange receipts, for the USSR to continue to export the great staple raw materials.

2. Preference for Predictable Markets

There are in the West highly organized markets (for wheat or cotton, for example) where the total volume of the commodity purchased and sold is so great, and the numbers of buyers and sellers active in the market so large that Soviet exports can normally be absorbed without causing a flurry. In dealing in such markets Soviet selling costs are kept to a minimum and their net foreign exchange receipts are that much larger. Moreover, because Soviet exports are a small part of the total supplies traded on these markets, the USSR can expand significantly the amount it offers for sale there without depressing price. These markets are additionally attractive to the USSR because the ability to predict with some certainty the quantity that must be sold in order to earn the necessary foreign exchange is a great advantage for a planned economy.

This same stability and predictability characterizes the market for petroleum, aluminum, tin, and diamonds, commodities offered in increasing quantities by the USSR in recent years. These are administered markets where prices remain stable over relatively long periods of time and where the quantities of the commodity handled are subject to fairly rigid direct or indirect controls administered by the sellers. In order to gain access to such markets, the USSR has often had to lower prices enough

to attract marginal buyers. These bargain prices have caused considerable concern in the West that the USSR was attempting to disrupt the order of the market. Actually, however, a careful study of Soviet behavior in these cases indicates that after Soviet sales at bargain prices have attained the desired volume, the USSR has quietly raised its prices to the level of the market. It seems quite likely that no one was more surprised than Soviet exporters when in 1958 Soviet sales of tin were so large as to cause the temporary suspension of the International Tin Agreement. In contrast, Soviet market research in such fields as aluminum, diamonds, flax, and zinc seems to have been of much higher quality. Additional quantities of these and other materials have been successfully marketed in the West, either with no depressing effect on price or with only a temporary price reduction.

3. Chronic Problems of Finance

Despite expanding raw material sales, Soviet foreign exchange earnings have consistently fallen short of the requirements of their import program. Since 1950 the USSR has been forced to sell nearly \$2 billion in gold to settle its international accounts. Soviet gold holdings and Soviet gold production are state secrets of the highest order, known probably only to a very few of the Kremlin leaders. Although Soviet spokesmen have done nothing to discourage Western speculation of an immense hoard of

gold in Moscow which is annually enriched by a huge flow from current output, the fact remains that Soviet behavior in international markets is not that of a country possessed of a large reserve. The assiduousness with which they have cultivated their reputation in international commercial circles, the promptness with which they have filled contracts, the eagerness with which they have pursued new trade contacts bespeak their long-run interest in international trade with the West. The vigor of their bargaining over price, their attempts to tie imports to exports, their recent search for medium-term credits of increasingly long duration, their pressure for most-favored-nation treatment from the West, above all the unpredictable composition of their raw material exports which suggests an annual harrying search for additional foreign exchange earners -- all these bespeak an attempt to conserve what gold they have. In addition, gold production appears to be a relatively expensive operation within the USSR, making gold sales at the fixed price of \$35 an ounce an exceedingly expensive means of settling international accounts.

It thus appears that Soviet eagerness to sell more to the West is a genuine concern about the means of financing their imports. Despite this concern, however, Soviet trade officials have given no indication of knowing what to do about it. The only devices for increasing sales in the industrial countries of the Free World of which they seem to be aware are participation

in monopolistic agreements or bargain prices. They have given no indication of a willingness to make the investment in time and resources necessary for successful marketing of their highly fabricated goods at competitive rather than cut-throat prices. On the other hand the promptness with which they have raised prices once this device has produced the desired result is a strong indication of their interest in minimizing the cost of acquiring foreign exchange.

B. - The Economic Offensive

Since the mid-1950's the expansion of Soviet economic relations with the underdeveloped countries of the Free World has been the most dramatic of the many dynamic developments characterizing total Soviet foreign trade. Until the shift from a defensive to an aggressive foreign economic policy, Soviet trade with these areas amounted to only about five percent of total Soviet trade, and to one-quarter of Soviet trade with the Free World. By 1962, however, trade with these areas had grown to 15 percent of total trade, and to nearly 45 percent of Soviet-Free World trade. The rapid expansion of commodity exchange between the USSR and these areas was accompanied by an equally rapid expansion of other contacts, economic, cultural and political. The number of Soviet technicians working on various developmental projects in underdeveloped countries has grown to nearly 7,000 while the number of students and trainees from these

areas in schools or institutes in the USSR has similarly mushroomed. Whole armies have been provided with Soviet military equipment and trained in Soviet military techniques, and delegations of various sorts constantly travel back and forth between the Bloc and the underdeveloped countries.

All this is a very great change. Before the onslaught of the economic offensive, Soviet interest in these areas was probably equally great, but its ability to implement the interest was limited by domestic priorities. Economic contacts were largely confined to commerce, and commerce was primarily the purchase of certain materials -- rubber, cotton, wool -- for cash. An export surplus in Soviet trade with the Industrial West was used to finance imports primarily from the outer sterling area.

The Soviet economic offensive is an integral part of Soviet foreign policy to extend Soviet influence. The uncommitted and politically unstable countries of the Free World, most of which have recently emerged from colonial rule with a legacy of anti-Western sentiment, have offered the Communists the "weakest links" through which the political and economic encirclement of Europe and the political isolation of the US could be accomplished. The immediate Soviet ambition has been to eradicate Western influence in these newly independent areas and simultaneously to render them increasingly vulnerable to Communism. At the same

time the Communists have hoped to create economic pressures in Western industrialized countries which are presumed to be dependent on underdeveloped areas for markets and sources of supply.

The economic offensive has employed a variety of techniques to accomplish its ends. It has been characterized by a pragmatic eclecticism in which offers of trade and various forms of aid have been combined with propaganda, subversion and political support. It has provided a wide variety of arms and military equipment on credit, the signing of the military agreements being followed very promptly by the shipment of the equipment and dispatch of Soviet technicians to train the recipients in its use. The USSR has offered lines of credit for economic development, typically \$100 million at 2½ percent for 12 years. Most of Soviet foreign aid has specified repayment in either the exports of the country or in convertible currency, the form to be determined by negotiation at the time repayment is due. Soviet economic aid has been used to construct projects as sizeable as the Aswan Dam or the Bhilai steel mill, and as modest as small cement plants or work shops. A significant proportion of total aid expenditures to date has been used to finance the services of Soviet technicians and specialists of all kinds. Soviet geologists have surveyed the natural resources of countries from Ghana and Egypt, through Iraq, Afghanistan and India to Nepal; Soviet advisors have been active in key governmental Ministries and Soviet engineers have erected a great

variety of industrial installations and trained indigenous populations in their use.

The economic offensive has been supported by a propaganda barrage equally diverse in its composition. Radio broadcasts in the tongues of Africa, the Middle East, Asia and Latin America have multiplied in number, printed matter has been distributed directly to literate populations, books and periodicals in native languages have been made available to local dealers at token prices and newsprint has been sold to publishers at prices which could not fail to curry favor. In addition a program of scholarships for study in the USSR has brought nearly 6,000 students from Asia, Africa and Latin America to the USSR since its inception.

Although the USSR has served as the leader and prime mover, this program to win the underdeveloped countries from the West is a Bloc-wide effort. The USSR accounts for about three-quarters of the total effort, while the European Satellites have supported the Soviet economic thrust and Communist China has engaged in a smaller foreign aid program of its own, largely restricted to Southeast Asia. The countries of Eastern Europe appear to participate in the aid program both on their own account and as subcontractors and suppliers to the USSR.

Since 1959 and 1960, the peak years of the Soviet economic aid program, the emphasis in Soviet foreign aid has shifted back to military aid and technical training. From the

Soviet viewpoint military aid must seem to yield maximum returns with minimum costs. First, countries seeking arms are often deeply embroiled in a dispute, domestic or foreign, and therefore in the state of turmoil in which Communist agitation gains most adherents. Second, the sale of arms, on current or deferred payment terms, costs the USSR little. If the military equipment sold is obsolete in the USSR, as has often been the case, its opportunity cost is zero, for it has already been superseded by an improved model. If the equipment is in current production, then the amount provided to the underdeveloped countries is likely to be such a small fraction of total output that its opportunity cost is slight. In contrast, the opportunities for domestic use of the resources going into a modern integrated steel plant, which are foregone when the plant is sold on credit to another country, would be much more significant to Soviet economic planners.

Perhaps of prime importance is the potential impact of Soviet military assistance to underdeveloped countries on the unity and cohesiveness of the Western allied powers. The prospect of a politically as well as an economically United Europe has not only become more imminent in recent months, but more formidable from the Soviet viewpoint for two reasons. The first is Britain's recently evidenced willingness to place ties with the six continental countries of the European Economic Community ahead of existing ties with members of the Commonwealth and the European Free Trade Area, both of which were created by the British.

British participation will mean a more potent European Community, economically and politically. The second lies in the fact that Communist parties all over the world are deeply divided into 2 groups: those who favor traditional, Stalinist policies and those neo-classicists of the Communist movement who support Khrushchev's revision of the Doctrine. The approach to Western unity could not come at a more uncomfortable time for the Kremlin leaders, struggling as they are with a fracture in their erstwhile monolithic body politic. Thus Moscow, while acting to reinforce the economic and political bonds existing in Eastern Europe, would place a special premium in any current development which might promote divisiveness among the Western allies. If the provision of arms to Indonesia could so exacerbate the West Irian issue as to cause a split between the Dutch and their Western allies, Moscow would undoubtedly consider the rewards ample to cover its costs. And if the installation of medium range missiles on the island of Cuba could make the US impotent in the world arena, economic calculus would be considered irrelevant.

Soviet Bloc trade with the underdeveloped countries has been stimulated both indirectly by the existence of Soviet aid and the fact of more extensive contacts and directly by Soviet and Satellite offers to buy and actual purchases of the major exports of these countries. The Soviet Bloc has sometimes contracted to buy nearly the entire annual production of the single

or most important export of a country dependent on export receipts, and has timed the offer to coincide with a period when the world price of the commodity was especially depressed. In this way it has become the major trading partner of Guinea, Egypt, Mali and Cuba. It has further signed long-term trade and payments agreements providing for the barter of raw material exports against Soviet fuel and capital goods. Such agreements are especially attractive to the underdeveloped countries whose imports of capital and consumer goods are dependent on export receipts which have fluctuated rather violently with the world price of their export commodity.

As a result Soviet commodity exchange with the underdeveloped countries has grown at a rate of 30 percent a year since 1955. Cotton, rubber and sugar account for 68 percent of total Soviet imports from these countries. Soviet exports show a similarly concentrated commodity composition, with machinery and petroleum representing one-half of the total. Roughly two-fifths of Soviet exports to these areas represents credit financed exports moving under the aid program while about one-fifth of Soviet imports represents repayment of past credits, mainly military.

Table 8

USSR Trade with Underdeveloped Countries in 1961

	Millions of Dollars and Percent	
	Value	Percent
Total Exports	819.2	100.0
Machinery and Equipment	301.5	36.8
Complete Plants	140.9	17.2
Petroleum and Petroleum Products	119.8	14.6
Rolled Ferrous Metals	49.4	6.0
Wood and Wood Products	58.8	7.2
Food	83.6	10.2
Other Merchandise	206.1	25.2
Total Imports	950.7	100.0
Cotton	122.0	12.8
Rubber, Natural	224.8	23.6
Food	403.2	43.4
Non-ferrous Metals	30.0	3.2
Other Merchandise	170.7	18.0

The pattern of Soviet trade within the underdeveloped areas in part reflects the concentration of the Soviet economic offensive. Five countries have received 70 percent of total Soviet economic aid while the entire program embraces two dozen recipients. The

Table 9

Economic Credits and Grants Extended by the USSR to
Underdeveloped Countries a/
January 1954-June 1962

	Million US\$
TOTAL	<u>3,550</u>
<u>Latin America</u>	<u>400</u>
Argentina	100
Cuba	300
<u>Middle East</u>	<u>875</u>
Iraq	180
Syrian Arab Republic	150
Turkey	10
United Arab Republic	510
Yemen	25
<u>Africa</u>	<u>420</u>
Ethiopia	100
Ghana	95
Guinea	65
Mali	50
Somali Republic	55
Sudan	25
Tunisia	30
<u>Asia</u>	<u>1,775</u>
Afghanistan	505
Burma	10
Cambodia	5
Ceylon	30
India	810
Indonesia	370
Nepal	10
Pakistan	35
<u>Europe</u>	<u>80</u>
Iceland	5
Yugoslavia	75

a. Data are rounded to the nearest five.

greater importance of Latin America in trade than in aid reflects the lack of receptivity on the part of countries in the area (excepting Cuba) to Soviet aid offers. Soviet interest in the area, however, is indicated in the volume of commerce. The concentration of aid and trade among individual countries is in part a reflection of a few large aid contracts. During the years (1956-58) when Soviet materials were being delivered for the construction of the Bhilai steel plant, India imports from the USSR more than tripled in value. The period of heavy deliveries of Soviet goods for the Aswan Dam began in 1961.

Table 10

Distribution of Soviet Foreign Trade in 1961 and Aid
with Free World Underdeveloped Countries
in 1954-62

<u>Area</u>	<u>Total Foreign Trade (1961)</u>		<u>Economic Aid Deliveries 1954-62</u>	
	<u>Value</u>	<u>Percent</u>	<u>Value</u>	<u>Percent</u>
Total a/	<u>1,769</u>	<u>100</u>	<u>882</u>	<u>100</u>
Latin America	667	38	52	6
Middle East	368	21	269	30
Africa	122	7	68	8
Asia	502	28	418	47
Europe	109	6	75	9

a. Because of rounding, components may not add to the totals shown.

Concentration of Soviet aid in a few countries reflects also an increasing selectivity on the part of the USSR. Although aid has always been concentrated among a few recipients, in the early years of the program, its scope and distribution were probably more limited by lack of receptivity on the part of the underdeveloped countries than by Soviet choice. As the program has grown, as projects have been successfully implemented with no more than normal delays and missteps, and above all since the Soviet sputniks have endowed the USSR with a new aura of strength and respectability, the number of countries willing to accept Soviet aid has also grown. The degree of concentration, however, has remained about the same. At present the Soviet aid program is concentrated in countries of strategic geographic location like Afghanistan, strategic international significance like India, or countries considered ripe for "socialism" like Cuba. For example, since 1960 when the Castro regime in Cuba adopted an "anti-imperialist" foreign policy, and nationalized the means of production, more than one-quarter of total Soviet aid extensions has gone to Cuba alone.

Soviet foreign aid has become an accepted fact of life in the underdeveloped world; in fact, it is generally ^{acceptable, because the USSR} ^{has demonstrated its willingness to} ~~ability~~ to provide up-to-date industrial equipment and training of all kinds. Since it has established itself, the USSR can now afford

to be more selective in dispensing its munificence. It seems likely that in the future the Soviet economic aid program will ebb and flow in intensity, continuing at less than peak levels until the USSR sees a new opportunity for an important potential addition to the Communist fold.

Table 11

Geographic Distribution of Soviet Foreign Trade
1955-61

Million US\$											
Free World											
Sino-Soviet Bloc											
Year	Total Foreign Trade		Total	European Satellites	Communist China	Other Asiatic Satellites	Total	Industrial West	Underdeveloped Countries	Other Countries	
	Exports	Imports									
1955	3,426.6	3,060.5	2,706.5	1,792.1	748.3	166.1	720.1	543.7	128.4	48.0	
			2,400.9	1,662.8	643.5	94.6	659.6	430.6	225.7	3.3	
1956	3,615.0	3,612.6	2,660.2	1,767.7	733.0	159.5	924.8	597.2	248.6	109.0	
			2,686.1	1,815.0	764.2	106.8	926.5	578.8	346.2	1.5	
1957	4,381.4	3,937.8	3,231.4	2,549.9	544.1	137.4	1,150.0	690.1	355.9	104.0	
			2,768.8	1,904.8	738.1	115.9	1,169.0	672.5	492.2	4.3	
1958	4,297.5	4,349.5	3,085.2	2,320.2	634.0	131.0	1,212.3	669.6	439.6	103.1	
			3,191.1	2,205.7	881.2	104.2	1,158.4	622.2	531.9	4.3	
1959	5,440.7	5,073.2	4,077.7	2,950.5	954.5	172.7	1,363.0	855.5	389.3	118.2	
			3,736.4	2,519.3	1,100.3	116.8	1,336.8	756.5	575.2	5.1	
1960	5,561.6	5,628.9	4,081.6	3,117.7	817.1	146.8	1,480.0	971.8	471.7	36.5	
			3,821.6	2,819.4	848.1	154.1	1,807.3	1,069.5	731.9	5.9	
1961	5,998.2	5,998.2	3,998.2	3,420.1	367.3	210.8	2,000.0	1,060.0	819.2	120.8	
			5,832.3	3,065.9	551.4	163.0	2,052.0	1,092.2	950.7	9.1	

Table 12
Commodity Composition of Soviet Exports
1955-1961

	1955		1956		1957		1958		1959		1960		1961	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Total Exports a/	3,426.6	100.0	3,615.0	100.0	4,381.4	100.0	4,297.5	100.0	5,440.7	100.0	5,561.6	100.0	5,998.2	100.0
Machinery and Equipment	599.0	17.5	624.4	17.3	652.1	14.9	794.8	18.5	1,168.1	21.5	1,141.2	20.5	964.6	16.1
Complete Plants	276.8	8.1	299.6	8.3	321.9	7.3	339.9	7.9	569.1	10.5	568.5	10.2	355.8	5.9
Fuels, Lubricants and Related Materials	329.0	9.6	428.2	11.8	648.3	14.8	651.2	15.2	797.8	14.7	902.5	16.2	1,046.1	17.4
Coal and Coke	97.8	2.9	142.8	4.0	249.5	5.7	219.8	5.1	229.1	4.2	242.1	4.4	284.9	4.7
Petroleum and Petroleum Products	230.1	6.7	284.4	7.9	397.6	9.1	429.9	10.0	567.0	10.4	677.9	11.8	757.8	12.6
Ores and Concentrates	115.4	3.4	130.0	3.6	183.9	4.2	190.0	4.4	215.8	4.0	242.9	4.4	252.6	4.2
Iron Ore	81.6	2.4	86.5	2.4	124.9	2.8	137.4	3.2	154.3	2.8	175.0	3.1	187.8	3.1
Base Metals and Manufactures	431.8	12.6	543.0	15.0	642.5	14.7	692.1	16.1	743.1	13.7	837.2	15.1	922.9	15.4
Ferrous Metals	321.0	9.4	385.7	10.7	439.6	10.0	494.5	11.5	547.2	10.1	642.3	11.5	711.7	11.9
Rollled Ferrous Metals	192.2	5.6	233.6	6.5	267.9	6.1	329.9	7.7	366.2	6.7	428.8	7.7	478.2	8.0
Non-Ferrous Metals	110.7	3.2	157.3	4.4	202.9	4.6	197.6	4.6	195.9	3.6	194.9	3.5	211.1	3.5
Aluminum	19.4	0.6	31.8	0.9	43.8	1.0	56.6	1.3	38.7	0.7	44.7	0.6	58.2	1.0
Tin	6.2	0.2	7.1	0.2	37.6	0.8	44.5	1.0	38.4	0.7	24.6	0.4	12.2	0.2

See footnote at end of table.

Table 12

Commodity Composition of Soviet Exports
1955-1961
(Continued)

	1955		1956		1957		1958		1959		1960		1961	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Chemicals	72.4	2.1	82.1	2.3	97.6	2.2	113.8	2.6	122.3	2.2	139.0	2.5	163.5	2.7
Wood and Wood Products	174.5	5.1	161.7	4.5	231.1	5.3	240.9	5.6	259.9	4.8	305.1	5.5	361.7	6.0
Lumber	94.3	2.8	86.0	2.4	135.1	3.1	136.9	3.2	150.4	2.8	182.8	3.3	206.5	3.4
Textile Raw Materials and Semi-manufactures	346.7	10.1	329.2	9.1	305.0	7.0	293.8	6.8	308.0	5.7	358.6	6.4	364.9	6.1
Cotton	297.9	8.7	272.4	7.5	255.5	5.8	238.6	5.6	248.1	4.6	288.7	5.2	283.8	4.7
Consumer Goods	497.8	14.5	476.8	13.2	517.7	20.9	665.4	15.5	523.5	17.5	502.2	16.2	1,006.5	16.8
Food	386.4	11.2	369.2	10.2	773.6	17.6	507.7	11.8	795.9	14.6	699.0	12.6	790.4	13.2
Grain	283.5	8.3	226.7	6.3	566.0	12.9	358.8	8.3	487.2	9.0	467.8	8.4	473.8	7.9
Other Consumer Goods	111.4	3.3	107.6	3.0	144.1	3.3	157.7	3.7	157.7	2.9	203.2	3.7	216.1	3.6
Other Merchandise	164.8	4.8	179.3	5.0	178.5	4.1	177.2	4.1	224.7	4.1	204.4	3.7	219.2	3.7
Unspecified	695.4	20.3	660.2	18.3	524.5	12.0	478.4	11.2	647.4	11.9	528.5	9.5	696.2	11.6

s. Because of rounding, components may not add to the totals shown.

Table 13

Commodity Composition of Soviet Imports
1955-1961

	1955		1956		1957		1958		1959		1960		1961	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Total Imports a/	3,060.5	100.0	3,612.6	100.0	3,937.8	100.0	4,349.5	100.0	5,073.2	100.0	5,628.9	100.0	5,812.3	100.0
Machinery and Equipment	925.3	30.2	895.3	24.8	940.4	23.9	1,064.6	24.5	1,351.9	26.6	1,675.2	29.8	1,739.0	29.8
Transportation Equipment	366.3	12.5	424.2	11.6	407.3	10.3	427.2	9.8	542.4	10.7	658.1	11.7	534.3	9.2
Fuels, lubricants and Related Materials	250.0	8.2	256.4	7.1	208.1	5.3	212.2	4.9	231.3	4.6	237.3	4.2	217.0	3.7
Coal and Coke	126.9	4.1	118.8	3.3	88.7	2.3	77.0	1.8	85.7	1.7	93.5	1.7	93.6	1.6
Petroleum and Petroleum Products	123.1	4.0	137.5	3.8	119.4	3.0	135.2	3.1	145.6	2.9	143.7	2.6	123.4	2.1
Ores and Concentrates	251.3	8.2	274.6	10.4	453.3	11.5	403.5	9.3	331.0	6.5	314.0	5.6	280.2	4.8
Base Metals and Manufactures	204.1	6.7	288.3	8.0	291.1	7.4	316.5	7.3	435.0	8.6	545.2	9.7	595.5	8.7
Ferrous Metals	71.0	2.3	145.2	4.0	163.5	4.2	183.4	4.2	265.2	5.2	373.9	6.6	342.0	5.9
Rolled Ferrous Metals	16.1	0.5	88.4	2.4	119.5	3.0	127.8	2.9	122.0	2.4	178.8	3.2	160.4	2.8
Non-Ferrous Metals	133.1	4.3	143.1	4.0	127.6	3.2	133.1	3.1	169.9	3.3	172.0	3.1	163.5	2.8
Tin	47.9	1.6	32.4	0.9	45.5	1.2	39.5	0.9	41.8	0.8	34.8	0.6	22.5	0.4
Copper	43.5	1.4	46.2	1.3	44.2	1.1	54.5	1.3	74.3	1.5	71.9	1.3	53.0	0.9
Chemicals	52.1	1.7	77.1	2.1	76.5	1.9	99.8	2.3	110.3	2.2	141.3	2.5	137.7	2.4

See footnote at end of table.

Table 13

2. Because of rounding, components may not add to the totals shown.

Table 14
Commodity Composition of Soviet Exports to European Satellites
1955-1961

	Million US\$ and Percent of Total													
	1955		1956		1957		1958		1959		1960		1961	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Total Exports a/	1,792.1	100.0	1,767.7	100.0	2,549.9	100.0	2,320.2	100.0	2,970.5	100.0	3,117.7	100.0	3,420.1	100.0
Machinery and Equipment	304.4	17.0	218.1	12.3	220.5	8.6	248.4	10.7	368.5	12.5	414.2	13.3	459.2	13.4
Complete Plants	129.7	7.2	65.4	3.7	50.4	2.0	51.5	2.2	87.5	3.0	108.6	3.5	111.3	3.3
Fuels, Lubricants and Related Materials	120.4	6.7	163.2	9.3	313.7	12.3	301.8	13.0	351.3	11.9	413.7	13.3	486.4	14.2
Coal and Coke	64.3	3.6	90.1	5.1	176.8	6.9	153.9	6.6	162.5	5.5	171.2	5.5	204.2	6.0
Petroleum and Petroleum Products	55.1	3.1	72.8	4.1	135.6	5.3	146.3	6.3	187.1	6.3	240.7	7.7	280.2	8.2
Ores and Concentrates	102.3	5.7	106.7	6.0	153.2	6.0	163.9	7.1	187.0	6.3	206.6	6.6	218.4	6.4
Iron Ore	81.6	4.6	86.5	4.9	124.9	4.9	135.2	5.8	151.3	5.1	170.8	5.5	184.1	5.4
Base Metals and Manufactures	249.6	13.9	302.2	17.1	415.2	16.3	455.2	19.6	520.5	17.6	584.1	18.7	655.4	19.2
Ferrous Metals	164.3	9.2	193.0	10.9	273.4	10.7	345.8	14.9	392.3	13.3	451.7	14.5	509.7	14.9
Rolled Ferrous Metals	97.0	5.4	118.2	6.7	173.1	6.8	239.7	10.3	280.8	9.5	328.2	10.5	375.2	11.0
Non-Ferrous Metals	85.3	4.8	109.2	6.2	141.9	5.6	109.4	4.7	128.2	4.3	132.4	4.2	145.7	4.3
Aluminum	13.3	0.7	13.7	0.8	25.0	1.0	24.4	1.1	21.7	0.8	30.6	1.0	45.7	1.3
Tin	5.9	0.3	4.5	0.3	13.5	0.5	8.1	0.3	8.8	0.3	6.3	0.2	7.8	0.2
Chemicals	36.1	2.0	39.7	2.2	48.1	1.9	52.8	2.3	58.3	2.0	63.2	2.0	73.6	2.2

a/ See footnote at end of table.

See footnote at end of table.

Table 14
Commodity Composition of Soviet Exports to European Satellites
1955-1961
(Continued)

	1955		1956		1957		1958		1959		1960		1961	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Wood and Wood Products	20.5	1.1	35.6	2.0	84.6	3.3	82.9	3.6	87.7	3.0	98.7	3.2	117.0	3.4
Lumber	4.0	0.2	14.3	0.8	43.9	1.7	46.7	2.0	49.6	1.7	58.6	1.9	68.8	2.0
Textile Raw Materials and Semi-manufactures	264.3	14.7	262.2	14.8	248.7	9.8	243.9	10.5	241.8	8.2	283.2	9.1	293.3	8.6
Cotton	233.8	13.0	229.7	13.0	215.0	8.4	208.3	9.0	204.1	6.9	234.0	7.5	231.4	6.8
Consumer Goods	285.7	15.9	241.2	13.6	667.9	26.2	423.8	18.3	660.2	22.4	575.7	18.5	513.3	15.0
Food	262.3	14.6	207.1	11.7	597.6	23.4	349.2	15.1	586.4	19.9	497.7	16.0	428.6	12.5
Grain	230.4	12.9	121.9	6.9	457.0	17.9	269.8	11.6	353.7	12.0	352.6	11.3	279.0	8.2
Other Consumer Goods	23.4	1.3	34.1	1.9	70.2	2.8	74.7	3.2	73.8	2.5	78.0	2.5	84.8	2.5
Other Merchandise	68.0	3.8	82.1	4.6	81.1	3.2	66.1	2.8	87.0	2.9	94.4	3.0	113.7	3.3
Unspecified	340.9	19.0	316.0	17.9	316.8	12.4	281.3	12.1	388.2	13.2	383.9	12.3	489.8	14.3

a. Because of rounding, components may not add to the totals shown.

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Table 16

Commodity Composition of Soviet Exports to Communist China
1955-1961

	1955		1956		1957		1958		1959		1960		1961	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Total Exports Σ /	748.3	100.0	733.0	100.0	544.1	100.0	634.0	100.0	924.5	100.0	817.1	100.0	367.3	100.0
Machinery and Equipment	229.6	30.7	304.7	41.6	272.6	49.9	318.0	50.2	527.5	57.1	503.9	61.7	108.1	29.4
Complete Plants	141.5	18.9	216.9	29.6	209.0	38.4	166.2	26.2	399.8	43.2	373.8	45.7	78.9	21.5
Fuels, Lubricants and Related Materials	79.0	10.6	86.0	11.7	90.4	16.6	92.4	14.6	117.7	12.7	113.1	13.8	120.7	32.9
Petroleum and Petroleum Products	79.0	10.6	86.0	11.7	90.4	16.6	92.4	14.6	117.7	12.7	113.1	13.8	120.7	32.9
Ores and Concentrates	0.2	negl.	0.2	negl.	0.2	negl.	1.2	0.2	1.3	0.1	1.2	0.1	-	-
Base Metals and Manufactures	88.5	11.8	78.4	10.7	40.8	7.5	76.7	12.1	54.5	5.9	69.8	8.5	41.2	11.2
Ferrous Metals	75.7	10.1	60.5	8.3	32.4	6.0	60.9	9.6	48.0	5.1	59.3	7.3	34.7	9.4
Rolled Ferrous Metals	53.7	7.2	43.7	6.0	21.4	3.9	36.8	5.8	29.4	3.1	39.2	4.8	19.3	5.3
Non-Ferrous Metals	12.8	1.7	17.9	2.4	8.4	1.5	15.8	2.5	6.4	0.7	10.5	1.3	6.5	1.8
Aluminum	0.1	negl.	0.1	negl.	negl.	negl.	9.2	1.5	0.2	negl.	2.6	0.3	1.6	0.4
Chemicals	4.8	0.6	2.1	0.3	3.2	0.6	3.2	0.5	3.2	0.4	2.7	0.3	2.7	0.7
Wood and Wood Products	12.2	1.6	10.8	1.5	6.0	1.1	0.5	0.1	0.6	0.1	0.8	0.1	2.9	0.8

See footnote at end of table.

Table 16

Commodity Composition of Soviet Exports to Communist China
1955-1961
(continued)

	Million US\$ and Percent of Total											
	1955		1956		1957		1958		1959		1960	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Consumer Goods	6.3	0.8	6.0	0.8	7.7	1.4	9.2	1.5	6.6	0.7	4.7	0.6
Food	1.0	0.1	0.7	0.1	0.9	0.2	1.1	0.2	0.5	0.1	negl.	negl.
Other Consumer Goods	5.3	0.7	5.3	0.7	6.8	1.2	8.1	1.3	6.1	0.6	4.7	0.6
Other Merchandise	5.3	0.7	5.7	0.8	3.6	0.7	11.2	1.8	6.9	0.7	6.9	0.8
Unspecified	22.4	43.1	239.1	32.6	120.6	22.2	120.9	19.1	165.5	17.3	107.0	13.1
											19.1	5.2

e. Because of rounding, components may not add to the totals shown.

Table 17
Commodity Composition of Soviet Imports from Communist China
1955-1961

	1955		1956		1957		1958		1959		1960		1961	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Total Imports ^{a/}	643.5	100.0	764.2	100.0	738.1	100.0	881.2	100.0	1,100.3	100.0	848.1	100.0	551.4	100.0
Machinery and Equipment	10.3	1.6	9.2	1.2	6.4	0.9	4.3	0.5	12.4	1.1	0.7	negl.	0.3	negl.
Transportation Equipment	10.3	1.6	9.2	1.2	6.4	0.9	4.3	0.5	12.1	1.1	-	-	-	-
Fuels, Lubricants and Related Materials	5.0	0.8	2.1	0.3	1.9	0.3	3.0	0.3	2.8	0.3	2.6	0.3	2.5	0.5
Coal and Coke	5.0	0.8	2.1	0.3	1.9	0.3	2.8	0.3	2.7	0.2	2.6	0.3	2.5	0.5
Petroleum and Petroleum Products	-	-	negl.	negl.	-	-	0.2	negl.	0.1	negl.	-	-	-	-
Ores and Concentrates	62.2	9.7	75.5	9.9	89.9	12.2	74.0	8.4	73.3	6.7	61.2	7.2	48.3	8.8
Base Metals and Manufactures	82.5	12.8	77.7	10.2	58.5	7.9	68.1	7.7	62.5	5.7	61.7	7.3	42.9	7.8
Ferrous Metals	26.3	4.1	27.3	3.6	6.8	0.9	19.2	2.2	7.6	0.7	12.8	1.5	8.7	1.6
Rolled Ferrous Metals	-	-	4.7	0.6	2.1	0.3	8.3	0.9	0.3	negl.	-	-	-	-
Non-Ferrous Metals	56.2	8.7	50.4	6.6	51.7	7.0	48.9	5.5	54.9	5.0	48.9	5.8	34.2	6.2
Tin	47.9	7.4	32.4	4.2	45.5	6.2	39.3	4.5	41.7	3.8	34.8	4.1	22.4	4.1
Chemicals	7.7	1.2	20.5	2.7	14.0	1.9	17.3	2.0	10.5	1.0	13.0	1.5	6.6	1.2
Wood and Wood Products	0.4	negl.	0.3	negl.	0.5	negl.	1.0	0.1	1.0	0.1	1.0	0.1	0.3	0.1

^{a/} See footnote at end of table.

Table 17
Commodity Composition of Soviet Imports from Communist China
1955-1961
(continued)

	1955		1956		1957		1958		1959		1960		1961	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Rubber and Rubber Products	0.7	0.1	12.2	1.7	37.2	5.0	28.1	3.2	23.1	2.1	11.6	1.4	3.4	0.6
Textile Raw Materials and Semi-manufactures	59.5	9.2	58.6	7.7	49.0	6.6	37.5	4.3	21.6	8.3	65.3	7.7	22.9	4.2
Cotton	23.6	3.7	21.4	3.8	23.9	3.2	21.2	2.4	52.3	4.8	33.9	4.0	8.0	1.5
Wool	245.0	38.1	316.5	41.4	294.8	39.9	481.3	54.6	643.1	58.4	516.9	60.9	10.4	1.9
Consumer Goods	183.5	28.5	209.5	27.4	137.9	18.7	230.1	26.1	219.1	19.9	127.9	15.1	17.4	3.2
Food	61.5	9.6	107.0	14.0	156.9	21.3	251.2	28.5	424.0	38.5	389.0	45.9	343.8	62.4
Other Consumer Goods	170.1	26.4	190.8	25.0	184.3	25.0	162.5	18.4	172.9	15.7	27.3	11.5	31.3	5.7
Other Merchandise	0.1	negl.	0.1	negl.	1.6	0.2	4.1	0.5	7.1	0.6	16.8	2.0	31.7	5.7
Unspecified														

a. Because of rounding, components may not add to the total as shown.

Table 18

See footnote at end of table.

Table 18
Commodity Composition of Soviet Exports to Industrial West
1955-1961
(continued)

	1955		1956		1957		1958		1959		1960		1961	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Textile Raw Materials and Semi-manufactures	65.4	12.0	58.7	9.8	42.0	6.1	32.3	5.2	60.5	7.1	70.1	7.2	52.1	4.9
Cotton Fibers	47.4	8.7	34.5	5.8	26.6	3.9	22.0	3.3	39.2	4.6	50.3	5.2	34.7	3.3
Consumer Goods	107.8	19.8	117.0	19.6	135.2	19.7	123.4	18.4	172.7	20.1	169.1	17.4	207.3	19.6
Food	70.0	12.9	77.4	13.0	96.1	13.9	85.0	12.7	126.4	14.8	117.2	12.1	158.1	14.9
Grain	47.5	8.8	54.1	9.1	68.2	9.9	63.1	9.4	99.1	11.6	85.3	8.8	128.2	12.1
Other Consumer Goods	37.8	7.0	39.6	6.7	39.8	5.8	38.4	5.7	45.3	5.3	51.9	5.3	49.2	4.6
Furs and Pelts	35.6	6.6	36.2	6.1	35.7	5.2	34.1	5.1	39.9	4.7	44.2	4.5	41.4	3.9
Other Merchandise	68.4	12.6	72.8	12.7	83.1	12.0	93.4	13.9	120.1	14.0	146.1	15.0	128.4	12.1
Unspecified	52.4	9.7	32.8	6.0	26.2	3.9	27.6	4.1	45.2	5.3	39.1	4.0	65.6	6.2

a. Because of rounding, components may not add to the totals shown.

Table 19

Commodity Composition of Soviet Imports from the Industrial West
1955-1961

	Million US\$ and Percent of Total											
	1955		1956		1957		1958		1959		1960	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Total Imports a/	430.7	100.0	578.8	100.0	672.5	100.0	622.2	100.0	756.5	100.0	1,069.5	100.0
Machinery and Equipment	181.5	42.2	229.2	39.6	217.3	32.3	194.1	31.2	293.9	38.8	456.4	43.4
Chemical Equipment	-	-	0.3	0.1	7.4	1.1	19.5	3.1	77.8	10.3	135.4	12.1
Transport Equipment	101.4	23.5	145.7	25.2	97.3	14.5	76.7	12.3	91.6	12.1	121.1	11.3
Base Metals and Manufactures	53.4	12.4	123.0	21.3	146.3	21.8	161.9	26.0	219.1	29.0	297.2	27.8
Ferrous Metals	12.3	2.9	74.0	12.8	104.2	15.5	106.3	17.1	175.9	23.3	252.1	23.6
Rolled Ferrous Metals	8.1	1.9	65.9	11.4	88.8	13.2	97.6	15.7	94.4	12.5	135.7	12.7
Pipes	1.3	0.3	2.6	0.4	5.3	0.8	1.1	0.2	68.9	9.1	101.9	9.5
Non-Ferrous Metals	41.1	9.5	49.1	8.5	42.1	6.3	55.6	8.9	43.3	5.7	45.1	4.2
Copper	40.2	9.3	45.9	7.9	40.5	6.0	54.1	8.7	35.7	4.7	38.2	3.6
Wood and Wood Products	48.9	11.4	63.5	11.0	77.4	11.5	63.4	10.2	49.2	6.5	52.2	4.9
Textile Raw Materials and Semi-manufactures	29.6	6.9	40.7	7.0	61.2	9.1	50.7	8.1	43.3	5.7	79.5	7.4
Wool Fibers	18.4	4.3	20.2	3.5	34.4	5.1	17.1	2.7	10.2	1.3	48.1	4.5
Synthetic Fibers	7.3	1.7	15.4	2.7	15.0	2.2	18.9	3.0	20.1	2.7	12.9	1.2
Consumer Goods	43.1	10.0	64.3	11.1	64.6	9.6	73.5	11.5	56.8	7.5	46.0	4.3
Other Merchandise	28.7	6.7	54.2	9.4	67.9	10.1	70.0	11.3	85.4	11.3	115.2	10.8
Unspecified	45.5	10.7	3.9	0.7	37.8	5.6	10.6	1.7	8.8	1.2	23.0	2.2

a. Because of rounding, components may not add to the totals shown.

Table 20

Commodity Composition of Soviet Exports to Underdeveloped Countries
1955-1961

	1955		1956		1957		1958		1959		1960		1961	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Total Exports a/	<u>128.4</u>	<u>100.0</u>	<u>248.6</u>	<u>100.0</u>	<u>355.9</u>	<u>100.0</u>	<u>439.6</u>	<u>100.0</u>	<u>389.3</u>	<u>100.0</u>	<u>471.7</u>	<u>100.0</u>	<u>819.2</u>	<u>100.0</u>
Machinery and Equipment	5.4	4.2	26.3	10.6	103.5	29.1	171.9	39.1	118.2	30.4	147.0	31.2	301.5	37
Complete Plants	1.1	0.9	7.6	3.1	47.2	13.3	112.3	25.5	69.3	17.8	68.6	14.6	140.9	17
Petroleum and Petroleum Products	36.2	28.2	45.7	18.4	58.7	16.5	85.6	19.5	88.3	22.7	97.6	20.7	119.8	15
Rollled Ferrous Metals	16.2	12.6	43.1	17.3	48.7	13.7	36.9	8.4	31.5	8.1	35.9	7.6	49.4	6
Wood and Wood Products	16.1	12.5	16.7	6.7	21.0	5.9	31.0	7.1	30.7	7.9	42.9	9.1	58.8	7
Food	11.4	8.9	58.5	23.5	50.0	14.0	51.7	11.8	52.8	13.6	51.3	10.9	83.6	10
Other Merchandise	38.7	30.1	56.2	22.6	69.2	19.4	59.3	13.5	62.5	16.0	82.9	17.6	138.5	17
Unspecified	4.4	3.4	2.1	0.8	4.8	1.3	3.3	0.8	5.3	1.4	14.1	3.0	67.6	8

a. Because of rounding, components may not add to the totals shown.

Table 21

Commodity Composition of Soviet Imports from the Underdeveloped Countries
1955-1961

	1955		1956		1957		1958		1959		1960		1961	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
Total Imports a/	225.7	100.0	346.2	100.0	492.2	100.0	531.9	100.0	575.2	100.0	731.9	100.0	950.7	100.0
Cotton	18.9	8.4	53.5	15.5	122.6	24.9	135.2	25.4	111.6	19.4	139.4	19.0	122.0	12.8
Natural Rubber	25.5	11.3	96.8	28.0	67.6	13.7	131.4	24.7	144.0	25.0	151.8	20.7	224.8	23.6
Food	103.4	45.8	21.2	6.1	153.2	31.1	103.6	19.5	115.0	20.0	232.4	31.8	403.2	42.4
Non-Ferrous Metals	0.2	neg	2.1	0.6	2.6	0.5	2.1	0.4	49.5	8.6	45.8	6.3	30.0	3.2
Other Merchandise	57.7	25.6	92.7	26.5	130.8	26.6	143.7	27.0	145.4	25.3	160.1	21.9	153.1	16.1
Unspecified	20.0	8.9	10.9	3.1	15.4	3.1	8.8	1.7	9.7	1.7	2.4	0.3	17.6	1.9

a. Because of rounding, components may not add to the totals shown.

Table 22

Trends in Foreign Trade Between the USSR and Selected Free World Countries
1955-61

	Million US\$					
	1955	1956	1957	1958	1959	1960
Free World-Total	<u>1,379.7</u>	<u>1,881.3</u>	<u>2,319.0</u>	<u>2,370.7</u>	<u>2,699.8</u>	<u>3,287.3</u>
Industrial West	<u>974.3</u>	<u>1,176.0</u>	<u>1,362.6</u>	<u>1,291.8</u>	<u>1,612.0</u>	<u>2,041.3</u>
Finland	234.0	261.0	315.7	254.4	286.6	293.4
United Kingdom	240.3	222.6	288.2	218.5	256.6	300.6
West Germany	53.1	109.9	133.2	137.7	209.4	318.0
France	95.8	120.2	114.5	167.7	188.3	203.7
Italy	33.8	59.9	74.5	73.9	130.8	193.0
Sweden	45.5	60.7	56.6	58.3	86.0	99.6
Belgium	39.3	61.3	58.8	39.2	37.0	51.4
Netherlands	66.3	51.8	65.7	74.7	79.8	69.9
United States	24.4	32.0	26.1	30.9	43.5	84.6
Underdeveloped Countries	<u>354.1</u>	<u>594.8</u>	<u>848.1</u>	<u>971.2</u>	<u>964.5</u>	<u>1,203.6</u>
Cuba	35.7	14.6	47.2	15.5	7.4	174.6
Egypt	26.4	88.8	193.1	194.7	180.6	191.1
India	11.7	58.7	126.7	180.9	128.5	115.6
Malaya	21.8	84.3	49.4	118.0	127.6	113.7
Ryugoslavla	33.9	118.8	129.9	102.0	99.4	108.2
Afghanistan	24.5	33.4	38.8	35.7	44.0	48.9
Argentina	52.1	32.1	25.5	33.2	44.7	35.7
Iran	41.6	34.4	50.2	53.9	36.7	37.0
Indonesia	3.8	13.1	25.5	38.8	26.8	47.7
Other Countries	<u>51.3</u>	<u>110.5</u>	<u>108.3</u>	<u>107.4</u>	<u>123.3</u>	<u>42.4</u>
						<u>129.9</u>

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