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AC/127-WP/442(Revised)

ECONOMIC COMMITTEE

NATO COUNTRIES' TRADE WITH COMMUNIST COUNTRIES IN 1974

Note by the Chairman

The attached paper is a revised version of working paper AC/127-WP/442. It has been prepared in the light of comments submitted by a number of delegations during the examination of the initial draft. To speed up distribution, the statistical tables and the graphs, which are unchanged, have not been reproduced and reference should be made to the original document if necessary. It is moreover understood that, at the Committee's request, Annexes I and II will not appear in the final document.

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N A T O    U N C L A S S I F I E D

SUMMARY

1. NATO country trade turnover with the Communist countries in 1974 (\$31.7 milliard)(1) increased less rapidly than in the previous year (32% as compared with 51% in 1973). The downward trend in trade between the two groups of countries contrasted with the trend in world trade which, in value terms (calculated on the basis of exports), was up by comparison with 1973 (an increase of 47% as against 38%). The rate of increase in trade between the NATO and Communist countries was also lower than the rate of increase in the Allied countries' overall trade (up 36%) but higher than the rate of increase between the Allied countries themselves and between the latter and the other Western member countries of OECD (up 27%).

2. This slow-down in the growth of trade between NATO and Communist countries is mainly due to a significant drop in the rate of increase of NATO country exports: this in fact fell by half, dropping from 60% in 1973 to 31% in 1974. On the other hand, the contraction in the rate of increase of Communist countries' deliveries, up by 33% in 1974 as compared with 41% a year earlier, was less abrupt. The relative loss of momentum in the development of trade between NATO and Communist countries which was noticeable last year must nonetheless be seen in perspective and against the very considerable increase which took place in 1973. A rate of increase of this magnitude would have been hard to maintain in view of the general recession in the West all the more so since it partly reflected special situations (the Soviet Union's need to buy grain in the West to offset the shortfalls in its own harvests).

3. The changes in the patterns of trade as described above affect the NATO countries as a whole but are not the same for the European members of the Alliance on the one hand and the North American members on the other. In 1974, trade between the Communist countries and NATO Europe increased by 37% (exports up by 43% and imports up by 30%) whereas trade between the Communist countries and North America rose by only 6%, the consequence of a 63% increase in imports and an 8% drop in exports.

4. Trade between the Communist and NATO countries accounts for only a small fraction of the latter's overall trade: 4.3% of exports and 3.1% of imports in 1974. Nonetheless, Eastern markets provide a far from negligible outlet for sales by certain Allied countries(2). On the other hand, NATO countries

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(1) Trade turnover was as follows: \$18 milliard for NATO country exports and \$13.7 milliard for imports by these countries

(2) See Tables I and II

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play a relatively larger part in the geographical breakdown of Communist countries' trade. Judging from GATT and OECD statistics, the USSR and the East European countries as a whole sent 22% of total exports to the Allied countries in 1974 and took 28% of their imports from them. Taking the developed market economies as a whole, the respective percentages work out at 32.5% and 38.5% respectively.

5. Allied country exports to Eastern Europe (\$10.5 milliard) grew almost as steadily as in the previous year (41% as compared with 47%). The rate of increase in sales to the Soviet Union on the other hand (\$4.8 milliard) fell considerably, dropping from 61% in 1973 to 13% in 1974 as a result of the lower level of Soviet grain purchases. The rate of increase in exports to China (2.3 milliard) also dropped dramatically to 29% as compared with 129% in 1973.

6. As regards NATO country imports, purchases from the Soviet Union (4.8 milliard) rose most (48%) while purchases from Eastern Europe (\$7.7 milliard) and China (\$1 milliard) increased more slowly, by 25% and 28% respectively.

7. The increase in the unit price of exports - estimated at about 20 to 25% - is likely to have accounted for half the increase in the value of NATO country deliveries to the East European countries and probably for almost all the increase in Allied country sales to China. The real increase in NATO country exports to the USSR is hard to gauge in view of the substantial changes in the pattern of Soviet purchases between 1973 and 1974 following the contraction last year in the relative importance of agricultural produce. However, if North American agricultural sales (which make up the bulk of Allied country deliveries of this type of produce) are excluded, the increase in the volume of Allied country exports to the Soviet Union can be estimated as roughly the same as that of their sales to Eastern Europe, i.e. 15-20%.

8. The impact of price increases was also reflected in NATO imports from Communist countries and in particular from the Soviet Union. The sharp rise in world prices of oil, timber, metals and other raw materials of which the Soviet Union is a major exporter, enabled that country to increase significantly its exports to the Alliance in value terms but probably not in volume. In contrast, China and most East European countries probably had to expand the volume of their exports in order to maintain or increase their export earnings, recession and falling demand in the West constituting a serious impediment to a sharp increase in their export prices.

9. Among the Alliance countries, the Federal Republic of Germany continued to be the leading trading partner, of the Communist countries, accounting for almost 38% of total NATO trade turnover with those countries (36% in 1973). Italy took second place following an extremely sharp increase (65%) in sales, ahead of the United States which had held this position in the previous year. Italy's share of overall trade between the Communist and Allied countries in 1974 came to 12% which is still very much smaller than Germany's share(1).

10. It seems likely that NATO country exports to the Soviet Union will pick up considerably in 1975 with an increase of between 80% and 100% over the 1974 figures. The Soviet Union is taking delivery of a steady flow of capital goods and has once again become a large buyer of grain. The rate of increase in sales to Eastern Europe could well drop to between 10% and 20% however(2). Lastly, statistics show that Allied country exports to China dropped during the first half of the year. This trend is likely to continue for the rest of the year and could be an indication that the Chinese leadership wishes to limit its trade deficit with most Western countries and to rely less heavily on imported agricultural produce.

11. The weakness - and in some cases the decline - of domestic demand in the NATO countries has inevitably had repercussions on the growth of their imports from the Communist countries, be they the Soviet Union, Eastern Europe or China. Purchases in 1975 will probably not increase at all or else very slowly at about 5% which is in line with the expected increase of overall imports by the industrialised market economy countries. In any case, there will certainly be a drop in the volume of NATO country purchases from the Communist countries.

12. This being so, and in view of the trends which appeared during the first half of the year, a large surplus can probably be expected in the balance of Allied countries' trade with the USSR; this could be near the \$4 milliard mark as compared with only \$4 million in 1974(3). It is more difficult to assess the surplus in trade with the East European countries given their tendency to cut back on purchases payable in hard currencies; this could be between \$3 and \$3.5 milliard (as compared with \$2.8 milliard in 1974) and China's trade gap with the NATO countries could close a little, from \$1.3 milliard last year to between \$0.9 and \$1 milliard

- (1) The value of German exports to Communist countries in 1974 was \$7.5 milliard as compared with Italian sales of \$1.8 milliard. The corresponding figures for imports were \$4.5 and \$2 milliard respectively.
- (2) The method of calculation of these rates of increase is described in paragraph 42.
- (3) This 1974 surplus for the NATO countries should be compared with the Soviet Union's surplus for the same year in its trade with OECD countries which are not members of the Alliance (\$876 million, including \$485 million with Finland).

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in 1975. It can therefore be expected that the surplus in Allied countries' trade with the Communist countries will go up from \$4.3 milliard in 1974 to about \$8 milliard this year, whereas the Communist countries' trade deficit with industrialized member countries of the OECD could rise to \$10 milliard in 1975 (\$5.1 milliard in 1974).

13. Any forecast of the way in which trade relations between the Allied and the Communist countries will develop in 1976 is made difficult by the uncertain outlook with regard both to growth in the Western economies and to the increase in international trade. This being so, an accurate assessment cannot be attempted. It seems likely however that Allied country exports will continue to rise at a steady rate in view of Soviet orders still outstanding and of the credit facilities granted by the Western countries. On the other hand, the growth of sales to Eastern Europe may be hampered by the application of the new COMECON trading conditions and by the size of the trade deficit vis-à-vis Allied countries. Oil exports could allow China to increase its currency holdings and hence its imports, but it seems that the main beneficiary of this increase would be Japan which is gaining ground in the Chinese market.

14. The rate of increase of NATO country imports from the Communist countries will largely depend on economic developments in the former countries. The OECD has however worked out a series of projections which point to a possible modest increase in real terms (5%) in Western country imports in 1976. This is an overall figure and its application to purchases from individual Communist countries could be risky; it is worth pointing out however that the Eastern countries could benefit from a small revival in Western demand given the categories of goods into which their sales fall. The bulk of these are made up of basic commodities, energy, intermediate goods and certain consumer items. This export structure could be an advantage to the Communist countries on the assumption that growth in the developed market economies in 1976 - still a matter for speculation - will be based primarily on an increase in private consumption and in stockbuilding(1).

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(1) Recent forecasts carried out by the OECD show that the rate of increase in the gross domestic product for the seven leading members of the Organization in 1976 could be 3.9%; 1.9% of this would come from an increase in private consumption and 1.3% from stockbuilding.

I. NATO COUNTRY TRADE WITH COMMUNIST COUNTRIES IN 1974

15. In 1974 NATO country trade with Communist countries expanded much less rapidly than in 1973: by 31.9% compared to 51.3% in 1973. On the other hand, NATO country trade with the world did grow slightly faster (35.6%). The slowdown in NATO country trade with Communist countries was mainly due to the following factors: firstly North American exports to the USSR dropped by 57% owing to a cutback in Soviet grain purchases; secondly European members of the Alliance which are the principal customers of East European countries, in particular Germany and Italy, increased their purchases much more slowly than in 1973: these grew by 21.8% in 1974 as against 36.2% in 1973.

16. In 1974, there was no change in the Communist countries relative share of NATO countries' exports, which remained at 4.3%. The decline in the North American share (down to 2.2% from 3.3%) was offset by the steady increase in Eastern countries' share in the exports of NATO Europe (5.3% against 4.8% in 1973). The percentage share of Communist countries in total imports by the Alliance members registered a slight decline from 3.2% in 1973 to 3.1% in 1974. These averages, however, should not lead to an under-estimation of the importance of Eastern markets for certain members of the Alliance. In this connection it may be worth noting that in 1974 German sales to the Communist countries represented 8.3% of total exports, this percentage was higher than that for sales to the United States (7.5%) or even to some of Germany's European Community partners such as Italy (8.1%) and Belgium/Luxembourg (7.6%)(1).

17. In contrast, Communist countries' trade with member countries of the Alliance accounts for a much larger and, with the exception of Soviet purchases, a growing proportion of their overall trade. Figures taken from various statistical sources(2) show that the Soviet Union exported 20% of its world total to the NATO countries in 1974 (as compared with 16% in 1973) and obtained 23% (24% in 1973) of its total imports from those same countries. The corresponding percentages for Eastern Europe are higher: 24% (23% in 1973) and 31% (28% in 1973) respectively. A point worth noting is that Rumania bought more from the NATO countries (41% of its supplies) than from its COMECON partners (32%) in 1974 and that Poland divided its purchases almost equally between the two groups of countries (42% of its imports came from the other state economy countries and 40% from the Alliance countries).

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(1) See Tables I and II

(2) Sources: International trade in 1974/75. GATT Annual Report (1975) and OECD: Foreign Trade Statistics, Series A

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18. This increase in the relative proportion of trade with the NATO countries is indicative of a faster increase in the value of such trade not only by comparison with overall Communist country trade but also with intra-COMECON transactions. The latter have been estimated by GATT(1) (on the basis of exports) at \$36.35 milliard in 1974 as against \$32.75 milliard in the previous year, making an increase of 11% compared with 32% in the case of Communist country trade with the Allied countries. The difference between these two rates of increase must not be taken at face value however, since prices within the COMECON remained relatively steady in 1974. This being so, there is absolutely no certainty that the increase in the volume of goods traded within the COMECON last year was less than the real increase in the trade between Eastern and NATO countries.

19. Trade between the European Communist countries and the developed market economy countries as a whole is on a distinctly larger scale. The latter took 34% (26% in 1973) of total Soviet exports in 1974 and 31.5% (28% in 1973) of total East European exports. The corresponding import figures were 36% and 40% respectively (32% and 35% in 1973). Here again, purchases by Poland and Rumania in the West accounted for over half (52% and 51% respectively) of their total imports last year(1).

20. NATO countries also accounted, in 1974, for an appreciably smaller proportion of trade between the OECD countries on the one hand and Communist countries on the other. They represented 68% of OECD exports as against 74% in 1973 and 65% of imports as against 68% in the previous year. This trend is general, applying as it does to trade with the USSR, with Eastern Europe and with China. It reflects the fact that trade relations between the Eastern countries and non-NATO members of the OECD have expanded faster than those with the Allied countries(2) mainly as a consequence of the resumption of traditional trade links between certain European countries (particularly Finland and Austria) and the Communist economies as well as the rapid build-up in trade between the latter and Japan(3).

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(1) Source: GATT Annual Report, 1975.

(2) Exports by non-NATO members of the OECD to the Communist countries rose from \$4.8 milliard in 1973 to \$8.5 milliard last year, making an increase of 77%. The corresponding import figures were \$4.8 milliard and \$7.5 milliard, making an increase of 56% (Source: Document AC/127-D/519 of 26th November, 1975).

(3) Japanese sales to the Communist countries doubled from \$1,953 million in 1973 to \$3,926 million last year. The increase in Japanese imports were less spectacular (37%), totalling \$3,139 million in 1974 compared with \$2,285 million in the previous year (Source: OECD).

(a) Trade Balance

21. In 1974, the NATO country trade balance with Communist countries once again showed a sizeable surplus in favour of the Alliance, rising from \$3,391.8 million in 1973 to \$4,298.8 million in 1974. The bulk of the surplus (\$3,029.9 million) accrued to Germany. The United States, after having recorded the largest surplus in the previous year, accumulated the second largest surplus totalling \$1,233.6 million(1).

22. Almost all of the NATO country trade surplus with Communist countries was derived from trade with East European countries (\$2,770 million - up from \$1,283 million in 1973) and with China (\$1,287 million - up from \$988 million in 1973), while the surplus recorded in the previous year with the USSR totalling over \$1 milliard disappeared almost completely, owing to the drop in North America's trade surplus with the Soviet Union: the latter fell from \$1,245 million in 1973 to \$265 million in 1974, which in turn was evened out by the trade deficit of some \$261 million accumulated by European NATO countries. Among the latter countries Germany, however, scored a surplus of the order of \$633 million with the Soviet Union. Germany also accounted for the bulk of the NATO country trade surplus with East European countries. Almost half of the German export surplus, totalling \$2,097 million, accrued from trade with Poland (\$849 million). In trade with China, however, the United States accumulated the largest surplus, amounting to some \$692.8 million.

(b) The Growth of Trade in 1974(i) Exports

23. In 1974, the expansion rate for NATO country exports to all Communist countries was much slower than in 1973 but close to that registered in 1972, amounting to 31.3% compared to 59.7% in 1973. The growth in exports to East European countries, however, reached 41%, only six percentage points below the 1973 level, while exports to the Soviet Union increased by only 12.7% as against 61% in 1973. Similarly, the growth rate in exports to China registered a sharp drop, falling from 129% in 1973 to 29% in 1974(2).

24. The percentage changes quoted here refer to changes in the dollar value of NATO country exports. They do not, therefore, measure the increase in the real value of such exports following an increase in their unit value. The sharp

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(1) See Table III  
(2) See Table IV



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fluctuations in Soviet purchases of agricultural produce during 1973 and 1974 have undoubtedly influenced the make-up by broad categories of Soviet imports. This being so, an evaluation of the increase in the unit value of sales to the Soviet Union by NATO countries as a whole can only be significant if the special case of North American agricultural sales (which make up the bulk of Allied country agricultural supplies) is disregarded. When this is done, the rate of growth of NATO country exports to the Soviet Union in 1974 then becomes 43% in value terms which is practically the same as the growth rate of sales by those same countries to Eastern Europe (41%). It can therefore be concluded that inflation has added 20% to 25% of the unit value of exports by the industrialized Allied countries(1) and that therefore the growth in the volume of sales has been about 15% to 20%. Over the period, moreover, the fluctuations of the dollar, vis-à-vis NATO Europe currencies, played only a minor rôle in the rise of the dollar value of trade.

25. The real growth in NATO exports to China, however, was probably much smaller, possibly no more than 10%; that of the United States must have contracted since export prices of agricultural products in the United States rose faster than the 17% increase registered in that country's exports - mainly foodstuffs - to China. The growth rate of exports from Canada (+55%) practically kept pace with the rise recorded in the prices of that country's agricultural exports and therefore, volume-wise, exports remained practically unchanged.

(ii) Imports

26. In 1974, NATO imports from Communist markets grew, in value, at almost the same rate (33%) as exports to those markets. The expansion in the volume of imports, however, may well have lagged behind that of exports owing mainly to the sharp price increase recorded in Soviet oil and other exports. In the case of Eastern countries it is more difficult to measure the effect of inflation on exports. It nevertheless may well be assumed that Eastern countries' export prices follow the world price trends.

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(1) NATO exports to East European countries and to the Soviet Union comprise mainly machinery and equipment. The price increase in German exports, which account for 49% and 38% respectively, of total NATO sales to those areas registered probably no more than an increase of 10-15% in prices. The rate of increase of export prices of other Alliance members, however, was much higher, ranging from 20% to 30%. The average price increase, therefore, may well have amounted to 20-25% in 1974. (Sources: OECD Statistics, June 1975, "Trade Indices", pages 22-23)

27. The bulk of the 48% growth recorded in NATO imports from the USSR must indeed be attributed to the sharp rise in oil prices. This has made it possible for the USSR to reduce sales of oil to non-Communist countries - and therefore possibly to Allied countries - without curtailing its hard currency earnings.

28. NATO country purchases in Eastern Europe registered an increase of 25% in value terms. Purchases of the European Allies grew by 22% whereas those of the United States rose by 77%, or twice as fast as in 1973. United States purchases in Hungary and Rumania, starting from a much smaller base, grew even faster, 358% and 134%, respectively. In contrast, among Hungary's major customers in the Alliance, Germany increased its purchases by only 10% while Italy cut down its imports by 15%. The 7% value growth registered in imports of the European Allies from Hungary, therefore, reflects a decline in volume which is bound to have adverse implications for Hungary's future procurements in the West.

29. The 16% and 5% growth in dollar value registered in NATO imports from Czechoslovakia and Bulgaria respectively (compared to 33% and 36% recorded in 1973) would also suggest that growth in the volume of imports was either negligible or negative.

30. Rumania managed to increase its sales to the Alliance as a whole slightly faster (39%) than in 1973 (35%) owing to a more than twofold rise in North American purchases, mainly of oil and petroleum products. Purchases of the European Allies recorded almost as rapid a growth (32%) as in 1973 (33%), owing to the sharp rise in the purchases of Rumania's less important trading partners such as Turkey, the Netherlands, Denmark and Belgium: their purchases rose in value by 885%, 82%, 136%, and 94%, respectively. Such growth in value implies a definite expansion in the volume of imports as well as a sharp increase in the price of oil and petroleum.

31. While the North American Allies increased their purchases in Poland by as much as 47% compared to 31% in 1973, those of the European member countries grew by only 24% as against 43% in the previous year. In some cases a sizeable decline in the rate of growth has been recorded: from 31% in 1973 to 3% in the case of Italy, from 51% to 19% in that of Germany and from 31% to 11% in that of the United Kingdom.

32. NATO imports from the GDR grew almost as rapidly (30%) in value as in 1973, although the volume growth was smaller than that of 1973 owing to inflation.

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33. Growth rate in NATO imports from China declined from 45% in 1973 to 28% in 1974. North American imports, however, rose by 51%. The growth rates in the purchases of Germany and France declined by 12 and 17 percentage points respectively, while Italy cut down its imports by 9%. China's sales to the United Kingdom and the Netherlands, however, continued to grow at the same pace (33% and 47%, respectively) as in the previous year. China's sales in volume too may well have grown considerably, since world prices for the type of many commodities that it exports have fallen in 1974. This development may explain the more cautious approach adopted by the Chinese towards their purchases abroad.

(c) Trade with Eastern Europe: Major suppliers and customers

34. The bulk of NATO country exports to all Communist countries, totalling \$17,986.8 million, once again went to East European countries, whose purchases in the Alliance reached \$10,501 million. Germany again supplied nearly one half (\$5,124 million) of total exports. Italy, expanding its sales by as much as 63%, raised its share of the market to almost one-tenth. A much smaller increase (29.9%) of exports (\$950.5 million) from France has resulted in a slight decrease of that country's share in the market (from 9.8% to 9.1%). Despite a sharp contraction in the growth rate of North American sales (39%), their share of the market, nevertheless, remained almost unchanged (9.1%).

35. Germany and Italy, in that order, remained the principal customers of Eastern Europe, with imports totalling \$3,027 million and \$1,084 million, respectively. These two countries together thus accounted for over one-half of total NATO country imports (\$7,731 million) from Eastern Europe.

36. In Eastern Europe, Poland remained the leading customer with purchases totalling \$3,517.4 million, but is no longer the country with the most rapidly expanding market for NATO country deliveries. While NATO country exports to Poland increased by 39.7% in 1974 compared to 97.8% in 1973, sales to some of the smaller trading partners, such as Bulgaria and Hungary, recorded a growth rate of 75% and 53% respectively - a remarkable increase especially considering that their sales to the Alliance members grew by only 5% and 14%, respectively. They therefore had to face a marked deterioration of their trade deficit with NATO countries, which reached over \$300 million for the first time in many years. Similarly, NATO country imports from other East European countries showed declining rates of growth in 1974 compared to those registered in 1973. The only exception were imports from Rumania, which grew even faster than in 1973 as a result of the rise in oil prices.

(d) Trade with the Soviet Union

37. The pace of growth (48%) in NATO country imports from the Soviet Union in 1974 remained comparable to the one (52%) recorded in the previous year but the growth rate in NATO country sales to the USSR recorded a sharp decline from 61% in 1973 to 12.7% in 1974 owing to a drastic reduction in North American exports which dropped by 57%. In contrast, European members of the Alliance, recording a 50% growth, managed to expand their sales nearly as fast as in the previous year. Sales from Germany rose by 57% to \$1,856 million. Germany thus supplied a growing share (38%) of total NATO country exports (\$4,830.8 million) to the USSR. Italy, expanding its exports to the Soviet Union twice as fast as in 1973 (by 76%) raised its share of the market to 12.8%.

38. Germany, the United Kingdom, Italy and France, with purchases totalling \$1,222.7 million, \$928.6 million, \$801.6 million and \$587.6 million, respectively, accounted for almost three-quarters of total NATO country imports (\$4,826.6 million). Among them, Italy raised its imports most rapidly - by 81% as against 36% in 1973, while Germany followed with an increase of 71%. Price hikes recorded in Soviet raw material and energy exports accounted for most of this rise. The growth in volume, however, may well have been limited to no more than 10%.

(e) NATO country trade with China

39. NATO country exports to China rose by 29% to some \$2,304.5 million. The United States and Canada, the principal suppliers, accounted for over one half of total NATO exports. Among European Allies, Germany remained the leading supplier with exports totalling \$420.7 million. France managed to raise its share of the market from 5% to 7% by expanding its exports by almost 80% to \$160 million, while the United Kingdom's share dropped by four percentage points to 7% as a result of a 19% decrease in sales.

40. NATO country imports from China, rising by 27.6% in 1974 compared to 44.9% in 1973, reached \$1,017 million. The increase in the purchases of the United States was striking (79%) and raised its share in total NATO imports by three percentage points to 11%. Among European NATO members, Germany and France, with purchases totalling \$192.8 million and \$183.7 million, respectively, remained the principal customers. Italy, on the other hand, reducing its imports by 8.9% to \$116.9 million, dropped to fourth place after the United Kingdom.

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41. In trade with China, NATO countries once again recorded a sizeable surplus of the order of \$1,287.2 million, or some \$300 million more than in the previous year. As in 1973, the bulk of the trade surplus accrued to the United States (\$692.8 million), Canada (\$384 million) and Germany (\$227.9 million).

II. DEVELOPMENTS AND PROSPECTS OF NATO COUNTRY TRADE WITH COMMUNIST COUNTRIES IN 1975

42. The development of trade relations between NATO countries and the Communist countries is subject to wide seasonal variations which it is difficult to forecast on the basis of previous cyclical movements. Consequently, any attempt to project the results for the whole of 1975 by comparing the trend recorded during the first half of the year with the corresponding period of 1974 entails a certain margin of error which may, however, be reduced by extrapolating the linear trend which emerged during the three six-monthly periods between January 1974 and June 1975. However, the results obtained by either method are only assumptions which can offer a range of values useful for estimating the development of trade in 1975.

(a) Trade with the Soviet Union

43. The application of the projections referred to above to Allied exports to the Soviet Union shows that these exports could rise by as much as between 70% and 80% in 1975. Such a rapid rise was to be expected for two reasons. Firstly, over the last few years the value of the orders for machinery and equipment placed by the Soviet Union in NATO countries has been increasing and is estimated to have risen from \$2.9 milliard in 1972 to \$4.9 milliard in 1974(1). A growing proportion of these orders is linked to projects which are paid for by deliveries of goods manufactured with the equipment imported. Orders placed in Italy for such projects reportedly amounted to \$2.4 milliard in 1974. Again, this year may see an increase in specific imports designed to enable Soviet planners to implement the programmes of purchases from the West scheduled for the 1971-1975 period.

44. Moreover, it is likely that the resumption of large-scale grain purchases by the Soviet Union will increase the sales by member countries of the Alliance to the Soviet Union to over the level estimated above, which is based solely on the trend observed during the last three six-monthly periods.

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(1) This figure is based on NATO document AC/127-WP/425 and has been revised in accordance with additional information provided in the United Kingdom Delegation document dated 11th August, 1975.

The Russians are reported to have already purchased in North America some 14 million tons of wheat and corn, with an FOB value of about \$2 milliard. However, in view of Soviet stock-piling capacity, it is likely that the deliveries will not exceed 7 million tons during the second half of the year, at a cost to the Soviet Union of another \$1 milliard or so. This is an estimated maximum figure, however, and it may well not be reached since grain deliveries, especially from the United States, were lower than expected in July, August and September.

45. In contrast to the rapid growth recorded in the exports of NATO countries to the USSR, their imports from that source will very likely stagnate in 1975; growth in value could be between 0% and 10%, which in real terms represents a drop. This is not surprising considering the weakness and even the decline of domestic demand in the Allied countries and the stagnation or decrease, in comparison with the 1973-1974 peak, of the prices of certain basic commodities with the USSR exports.

46. The surplus accumulated by the NATO countries in their trade with the Soviet Union during the first half of 1975 amounted to \$1.4 milliard. In the light of the assumptions on the development of trade referred to earlier in this paper, it may continue to rise to a total of \$4 milliard for the whole of the year. The North American members of the Alliance and the Federal Republic of Germany will probably benefit most from this surplus.

(b) Trade with East European Countries

47. Exports of capital goods in execution of past orders should help to sustain the growth in Allied sales to the East European countries in 1975. But the growth rate is likely to show a marked decline from the 1974 figure of 41% and, so far as can be judged at present, could be between 10% and 20%.

48. As is the case with imports from the Soviet Union, the increase in purchases by members of the Alliance from East European countries is likely to drop off steeply this year because of the economic recession in the West. The growth in value is unlikely to be more than 5% (as against 25% in 1974). The trend of NATO countries' purchases from the East thus virtually matches that of total imports by the OECD countries (which rose 6% in value during the first half of 1975).

49. During the first half of 1975, the NATO countries' trade balance with East European countries recorded a surplus of \$2.0 milliard, mainly with Poland (\$827 million), Rumania (\$341 million) and Hungary (\$322 million). The surplus may well reach \$3 to \$3.5 milliard for the whole of the year if the trend observed in the development of trade continues.

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(c) Trade with China

50. Exports by NATO countries to China during the first six months of 1975 dropped in value by 11% compared with the same period in 1974. This decline also tallies with the extrapolation for the whole year of the tendency observed since the beginning of 1974. This reduction in Chinese purchases may reflect a deliberate attempt on the part of the authorities to reduce China's rising trade deficit with members of the Alliance. It could also be that thanks to a good harvest, China's import requirements of agricultural produce are declining. In this connection, exports from North America (which comprise mainly agricultural produce) went down by half during the first six months of the year. On the other hand, it is worth noting that China is rapidly increasing its imports from Japan, which doubled in 1974 and increased by 48% during the first half of the year by comparison with the corresponding period of the previous year(1).

51. The trend of Chinese exports to the NATO countries in 1975 will probably be very similar to that observed in the case of Soviet and East European sales to the same countries. The present trend seems to be towards a very slight rise of between 0% and 5%.

52. In spite of the fall-off in Chinese imports from Allied countries in the first half of the year, China's trade balance with these countries during this period showed a deficit of \$526 million, which is only slightly less than that for the first six months of 1974 (\$675 million). The deficit for 1975 as a whole could well be in the region of \$0.9 milliard to \$1.0 milliard (as against \$1.3 milliard in 1974).

III. PROSPECTS FOR 1976

53. It is difficult to predict how trade will develop between NATO and Communist countries in 1976 because of the number of imponderables concerning Western economic growth and the development of world trade.

54. Sales by NATO countries to the Soviet Union are likely to rise rapidly because of the scale of the orders for capital equipment placed by the Russians, but not yet executed, and of the continuation of Soviet grain purchases in 1976.

55. In contrast, a decline in the growth of Western sales to the East European countries can be expected. Since there is not much change, at least in the short-term, of these countries

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(1) Source: OECD

increasing their convertible currency earnings, they may be inclined to curb the growth of their imports from the West so as to avoid what, for some of them, could become an unacceptable degree of indebtedness.

56. Moreover, in 1976, the full effects of the price increases decided for intra-COMECON trade will be felt. The terms of trade in this area will change in favour of the Soviet Union because of the application of the rise in world prices of raw materials to dealings between the COMECON member countries. The East European countries may find themselves obliged to step up their exports to the USSR in order to maintain or increase their purchases of Soviet raw materials. They may even have to send to the USSR, and not the Western countries, part of the exports which earn them their convertible currencies.

57. One indication that NATO country trade may well expand more rapidly with the Soviet Union than with the East European countries is the trend in orders placed by all these countries; in 1975 the Soviet Union continued to place large orders with Western firms for capital goods, and this was not the case for all the East European countries. For the first seven months of 1975, the orders placed in NATO countries by the Soviet Union, Poland, East Germany, Rumania and Czechoslovakia are estimated at \$1.6 milliard, \$835 million, \$270 million, \$60 million and \$3 million respectively.

58. Western credits have undoubtedly played an important part in the expansion of exports of capital goods to Communist countries and in particular to Eastern Europe. Although in the past the latter countries resorted to credits to a larger extent than the Soviet Union, in future they may be more cautious in their approach to purchases on credit. They may prefer to cut back buying on credit, knowing that the stagnation - and even the decline - of their export earnings may reduce their ability to service debt obligations. Western countries, too, may well hesitate to expand the volume of credits to be extended to some of those countries in view of their precarious external payments situation and the large debts they have already accumulated.

59. In contrast, the Soviet Union's natural resources and gold reserves represent an asset which might encourage it to increase its borrowings in the West and, thereby, its purchases of Western technology. This development should be reflected, in due course, in NATO countries' trade figures. Western countries, anxious to export as well as to secure access to raw materials, may not hesitate to extend large volumes of



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credits, hence goods, to the USSR. Three countries, France, the United Kingdom and Italy, have each informed the Soviet Union of the volume of export credits available if that country concerned places orders with their exporters. The total at present stands at around \$2 milliard. In any event, it is planned that a large proportion of the Soviet debt should be reimbursed through sales of certain goods or raw materials produced with the help of equipment imported on credit from the West (oil, natural gas, coal, timber and the like).

60. The outlook for Allied imports from the European Communist countries will be very similar to that for Western purchases anywhere in the world and will be closely linked with economic conditions; forecasts established recently by the OECD, however, indicate that for 1976 there could be a volume increase of 5% in the total imports of OECD member countries. Furthermore, the Communist countries might well be in a comparatively favourable position in the event of a resumption of Western economic growth inasmuch as such a development would probably result in an increase in private consumption and stockpiling rather than in renewed investment. The commodity pattern of their sales would put these countries at an advantage since they offer mainly basic commodities, intermediate products and consumer goods and not capital equipment.

61. The data available on which to base estimates of 1976 trade development between China and the Western countries remain fragmentary. It would appear that China had exceptionally good harvests in 1975, which may mean that its agricultural imports (which in 1974 accounted for 54% of its purchases from North America) are likely to go down. On the other hand, the Chinese may boost their Western purchases of certain semi-manufactured goods, particularly iron and steel goods, since they are developing the oil industry (hence the requirement for steel piping) and shipbuilding (sheet steel) with a view to acquiring their own ships to export their oil and thus avoid freight charges. In any case, Chinese imports will depend to a very large extent on how they are paid for. China has growing oil resources and sales of this product to Japan and other South-East Asian countries - particularly the Philippines - should provide it with big foreign currency earnings. However, it is possible that, like in 1975, Japan will benefit more than the NATO countries from any increase in Chinese imports.