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TRADE BETWEEN THE NATO AND COMMUNIST COUNTRIES IN 1976

DRAFT 14TH REPORT

ADD. 2.2.78

Note by the Chairman

The attached report has been prepared mainly on the basis of OECD foreign trade statistics compiled by the International Staff(1); it consists of:

- the report proper, which deals with the pattern of foreign trade between the NATO countries and the Communist countries in 1976, developments in 1977 and the outlook for 1978;
- two Annexes, the first containing a detailed analysis of trade between the NATO and Communist countries in 1976(2) and the second consisting of a series of statistical tables and graphs.

SPECIAL NOTE

Tables 3 to 5 inclusive, plus graphs, will be issued in English within the next few days. Meanwhile please refer to the French text (already distributed) for these.

(Signed) J. BILLY

NATO,
1110 Brussels,

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- (1) AC/127-D/560 of 6th November, 1977
(2) Communist countries:
- Eastern Europe: Poland, Hungary, Bulgaria, Romania, Czechoslovakia and GDR
- USSR
- China
Others: Albania, North Korea, North Vietnam

N A T O U N C L A S S I F I E D

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TRADE BETWEEN THE NATO AND COMMUNIST COUNTRIES IN 1976

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TRADE BETWEEN THE NATO AND COMMUNIST COUNTRIES IN 1976(1)

This report sets out to analyse the pattern of trade between the NATO and Communist countries in 1976, the trends in 1977 and the outlook for 1978. It also has two Annexes, one consisting of a detailed analysis of trade in 1976 and the second providing a series of statistical tables.

A. PATTERN OF TRADE BETWEEN THE NATO AND COMMUNIST COUNTRIES IN 1976

2. In 1976, trade between the NATO and Communist countries (valued at \$40.3 milliard) grew by a modest 7% (2), which was well below the 1975 figure of 19%. It was in marked contrast to the overall trade of member countries of the Alliance, which showed a sharp upturn (3). This decline in the growth of trade was unevenly spread, with sales by the NATO group (\$22.7 milliard) falling slightly (-1%) and Communist sales (\$17.7 milliard) rising sharply (+20%). The latter's trade deficit (4) consequently dropped from the all-time high of \$8.3 milliard in 1975 to \$5.0 milliard while their trade gap (4) with the OECD industrialized market economy countries shrank from \$11.1 to \$7.8 milliard.

(1) NATO countries' exports

3. After a dramatic rise in 1975 (+78%), exports from Alliance countries to Russia (\$8.9 milliard) rose by only a very modest 3.5% in 1976 solely due to an increase in Soviet North American grain purchases during the first half of the year to compensate for the poor 1975 harvest. Apart from this, the remaining Allied sales - mainly capital goods and semi-manufactures - to all intents and purposes marked time (-1%), in contrast to the 58% rise recorded the previous year. Faced with the need to continue big grain imports and reduce its trade gap because of its debt burden vis-à-vis the capitalist countries, the Soviet Union in 1976 halted the growth in its purchases of industrial goods. However, the volume of the latter did not go down because of the stagnation in the unit value (expressed in dollars) of sales by Alliance member countries (5).

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- (1) All references to trade between the Federal Republic of Germany and the Communist countries in this report include intra-German trade. Because of their special nature, these transactions are not included in the Federal German foreign trade statistics or in those of the OECD. The data in this document comes from "Wirtschaft und Statistik".
- (2) The lowest growth rate recorded since 1968.
- (3) The overall trade of these countries went from +4% in 1975 to +13% in 1976.
- (4) On a fob-cif basis.
- (5) See Annex I, paragraph 2.

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4. Exports by NATO countries to Eastern Europe (\$11.9 milliard) showed an even smaller increase in 1976 than in the previous year (2.7% as against 9.9%). This points to a continuation of the effort to hold down the increase in convertible currency imports which was noted in 1975. At the same time, the drop in 1976 in the average price (expressed in dollars) of sales by Alliance countries led to a slight growth in the volume of East European purchases after the stagnation of 1975(1).

5. The Alliance countries' exports to China (\$1.7 milliard) registered a 24% decline in 1976 mainly because the Chinese government was trying to balance its external payments.

(ii) Imports by NATO countries

6. The economic pick-up in the NATO countries in 1976 helped the Communist countries to sell considerably more on their markets. Exports by Soviet Russia (\$6.9 milliard) rose by 31% (compared with 9% the previous year), mainly because of increased oil sales(2). Their volume increase was however lower, probably no more than 20%, because of their enhanced unit value. Imports by members of the Alliance from Eastern Europe (\$9.4 milliard) expanded by 16% in volume and value compared with 6% in value in 1975. Lastly, Allied buying from China (\$1.2 milliard) was up by 19% (3% in 1975).

(iii) Trade balance

7. In 1976, the Communist countries succeeded in narrowing their trade gap with the NATO countries, which the previous year had reached an all-time high. The Soviet deficit diminished from \$3.4 to \$2.1 milliard while that of Eastern Europe as a whole also went down though only from \$3.4 to \$2.4 milliard; as before, Poland's trade accounted for half the deficit. The Allied countries' trade surplus with China went from \$1.2 milliard in 1975(3) to only \$0.4 milliard.

(1) See Annex I, paragraph 8.

(2) According to Soviet statistics, sales of oil to member countries of the Alliance rose from 30.1 million tons in 1975 to 41.0 million tons in 1976 (see Annex I, paragraph 4).

(3) The figures in this paragraph come from Western statistics and are, therefore, fob-cif.

8. The Communist countries' trade deficit has fallen mainly because the value of their sales has risen faster than that of their purchases. However, special mention should be made of the influence of price movements. In 1976, the Soviet Union apparently achieved a big improvement (approximately +13%) in its terms of trade (expressed in dollars); if the dollar prices of Soviet exports and imports had remained unchanged, the deficit vis-à-vis the members of the Alliance would probably have been \$2.9 milliard in 1976. So the improvement in the terms of trade accounts for almost two-thirds of the drop in the Soviet deficit. The improvement in the terms of trade had less effect in the case of Eastern Europe where, expressed in dollars, it was probably only about 2%. Be that as it may, if the prices (in dollars) had remained as before, the area's trade gap with the Alliance countries would have been \$2.65 milliard in 1976; price movements, therefore, accounted for one-quarter of the reduction in the area's trade deficit.

(iv) Main exporters and importers in the Alliance

9. In 1976, the Federal Republic of Germany was again the main supplier of goods to the Communist countries followed, as in 1975, by the United States and France. Sales to those three countries amounted to \$8.6(1), \$3.6 and \$3.1 milliard respectively and accounted for 38%, 16% and 14%, or 68% in all, of total sales by the countries of the Alliance. The Federal Republic of Germany, Italy and France, in that order, were the best customers, their purchases totalling \$5.9(2), \$2.6 and \$2.2 milliard or 33%, 15% and 12.5% (60.5% in all) of imports by the NATO group of countries.

(v) Degree of dependence on trade

10. In 1976 the importance of the Communist countries as trade outlets for the countries of the Alliance remained small; the share of total exports from NATO countries taken by the Communist countries amounted to only 4.6%, which was rather less than the corresponding figure for 1975 (5.1%)(3). This drop reflects the slight fall-off in 1976 in sales by Alliance member countries to the Communist countries at a time when overall NATO country exports were continuing to expand. The Communist countries slightly improved their position as suppliers to the Allied countries (from 3.2% in 1975 to 3.4%)(4).

(1) The figure of \$8.6 milliard includes sales to the GDR (\$1.7 milliard) as part of intra-German trade.

(2) The figure of \$5.9 milliard includes purchases from the GDR (\$1.5 milliard) as part of intra-German trade.

(3) See Annex II, Table I

(4) See Annex II, Table II

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although their contribution remained fairly insignificant. Only Iceland obtained a comparatively large proportion (14%) of its imports from the East, mainly as a result of its special agreements with the Soviet Union to supply it with oil.

11. On the other hand, the NATO group of countries are important trading partners for the Communist world. In 1976 they took 19% of Soviet and 22% of East European total exports; for imports, the corresponding percentages were 25% and 27%(1), and they are believed to have accounted for 18% of China's exports and 28% of its imports(2).

12. The industrialized Capitalist countries as a whole supplied 41% of Russia's imports and took 31% of its exports; the corresponding figures for Eastern Europe were 35% and 27%(3). At the same time, within the Communist grouping certain countries, Poland, for example(4) traded more than others. In the case of China, it seems that the OECD countries supplied 62% of imports and took 42% of exports(5). These very high percentages are explained by Japan's leading position among China's trading partners(6).

13. In contrast with last year's trend(7), the share of the Allied countries, and more generally speaking that of the advanced market economy countries, in the total trade of the European Communist countries showed an upward tendency. This is mainly because the growth in trade between the Soviet Union

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- (1) Sources: Soviet, GATT and OECD statistics.
 - (2) Calculations based on estimates of total Chinese trade made by the CIA and published in "China Trade Report", Volume XV, December, 1977.
 - (3) Source: GATT 1977 annual report.
 - (4) The developed market economy countries accounted for 51% of Poland's imports and 34% of its exports in 1976 (source: GATT).
 - (5) Source: See note (2) to paragraph 11 above.
 - (6) In 1976, trade between Japan and China was as follows: Japanese exports = \$1,663 million; Japanese imports = \$1,371 million (source: OECD).
 - (7) According to GATT, the share of the advanced market economy countries in Soviet and East European foreign trade has developed as follows:

	<u>1974</u>	<u>1975</u>	<u>1976</u>
Soviet and East European exports	32.5%	27.6%	29.1%
Soviet and East European imports	38.5%	37.3%	37.4%

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and the East European countries and between those countries and the West has slowed down appreciably by comparison with 1975. Intra-COMECON (Europe) trade expanded by 30% in 1975 and by only 11%(1) in 1976.

B. 1976 TRENDS IN TRADE BETWEEN THE NATO AND THE COMMUNIST COUNTRIES

14. During the first half of 1977, the imbalance in trade between the NATO and Communist countries was further reduced, with exports from member countries of the Alliance (\$11,077 million) dropping by 5% in comparison with the corresponding period in 1976 and sales by the East European countries (\$8,957 million) going up slightly (+6.5%). This led to an appreciable reduction in the trade deficit of the Communist countries, which went from \$3,255 million in January to June 1976 to \$2,120 million.

15. During the same period, exports from Allied countries to the Soviet Union (\$4,510 million) dropped 6% in comparison with the first half of 1976. This fall-off was caused by the big reduction (-36%) in buying on the North American market(2) because of the halving of Soviet grain purchases(3). On the other hand, sales by the European member countries of the Alliance(4) rose by 9%. An extrapolation of the linear tendencies observed since the second half of 1975 suggests that for 1977 as a whole exports from the European NATO countries may total about \$6.5 milliard and North American exports about \$2.2 milliard(5). Russian imports from the Alliance countries should therefore amount to \$8.7 milliard which is a little below the 1976 figure of \$8.9 milliard.

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- (1) Source: UN Economic Bulletin for Europe No. 29. According to the estimates made by the Secretariat of the Economic Commission for Europe in Geneva, this fall-off reflects a smaller rise in the volume of transactions (plus 5% in 1976 as against plus 8% in 1975) and above all much smaller price rises in 1976 (+5.5%) than in 1975 (+20%).
 - (2) See Annex II, Table V.
 - (3) Soviet grain purchases in North America dropped from \$1,262 million in the first half of 1976 to \$652 million during the first half of 1977.
 - (4) See Annex II, Table V.
 - (5) But there is a large measure of uncertainty over the likely value of Soviet grain purchases during the last three months of 1977.

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16. From January to June 1977, Soviet sales on Alliance markets (\$3,424 million) rose by a modest 5%. This probably reveals a fall-off in the volume of trade since the prices of certain traditional Soviet exports were notably higher(1). For the whole year, the value of Soviet sales on Alliance markets could be in the region of \$7.3 milliard, which would be a 6% improvement on 1976. This means that Soviet Russia's trade gap with the member countries of the Alliance would be around \$1.4 milliard in 1977 as against \$2.1 milliard the year before.

17. During the first six months of 1977, Alliance countries' exports to Eastern Europe (\$5,833 million) rose by only 4%. This is largely the result of efforts by these countries to cut back their convertible currency purchases by means of increased centralized import restrictions and the reduction of non-essential purchases. Judging from the linear tendencies observed from July 1975 to June 1977, deliveries by European NATO countries could amount for the whole of 1977 to some \$10.8 milliard and North American sales to around \$1.2 milliard. Total sales by member countries of the Alliance would therefore be \$12.0 milliard which is comparable with the 1976 performance (\$11.9 milliard).

18. During the same half-year, imports by NATO countries from Eastern Europe (\$4,860 million) rose by 8%; the figure for the year as a whole is likely to be about 7%, which means that the value for these imports would be \$10.1 milliard. So the East European trade gap could come to \$1.9 milliard in 1977 as against \$2.4 milliard in 1976.

19. All in all, NATO countries' exports to the European Communist countries could total \$20.7 milliard in 1977 with the sales by those countries to the Alliance group coming to around \$17.4 milliard. This would put the combined Soviet Union/Eastern Europe trade gap at around \$3.3 milliard (as against \$4.5 milliard in 1976). On the strength of the trends recorded between July 1975 and June 1977, sales by OECD countries to the People's Republics could total between \$29.0 and \$29.5 milliard in 1977 and their purchases between \$24.0 and \$24.5 milliard. The Soviet and East European trade gap with the non-Communist industrialized countries would consequently be about \$5 milliard (as compared with \$6.6 milliard in 1976).

(1) It seems, for example, that the Russians have increased the price of their oil deliveries by 10%; moreover, during the first six months of 1977, the world prices of wood rose by 19% in comparison with the same period of 1976.

20. Between January and June 1977, Alliance countries' sales to China (\$614 million) slumped by 45%; this trend reflects the completion of transactions connected with big contracts for the supply of industrial plant concluded in 1973 and 1974 and also the government's determination to restrict imports which have to be paid for in foreign currency with a view to redressing the external payments situation. Apart from Canada(1), the fall-off in sales by members of the Alliance will probably continue throughout the year with Chinese purchases from these countries amounting to approximately \$1.3 milliard in 1977. During the first six months of the year, purchases by the Allied countries (\$618 million) rose by a modest 3.5% and this trend probably continued throughout the year, which would put Chinese sales in the region of \$1.3 milliard. So in 1977 China was probably able to balance its trade with the NATO group of countries after experiencing a deficit of \$425 million in 1976.

21. The incomplete information available and an extrapolation of trends would suggest that Chinese buying from the OECD countries could reach a total of \$3.3 milliard in 1977 and sales to the same countries a total of \$3.0 milliard. China's trade gap with the non-Communist developed countries would thus stand at around \$300 million, as compared with \$854 million the year before(2).

C. OUTLOOK

(i) Trade with the Soviet Union and Eastern Europe

22. To achieve the productivity gains necessary for their economic growth, the European Communist countries will continue to depend to some extent on Western technology. It may therefore be expected that their imports of equipment and semi-finished goods from the West, and particularly from the member countries of the Alliance, will remain substantial.

23. In the case of Soviet Russia, flagging output in some Western Siberian deposits will probably result in large orders being placed for Western equipment to reactivate the workings; certain sources(3) consider that such orders could amount to \$1 milliard. It is expected that other orders will be linked with the development of off-shore oil drilling and

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- (1) Canadian sales will probably rise during the second half of the year as a result of the Chinese order placed in June for three million tons of wheat.
- (2) It is worth remembering, however, that Hong Kong and, to a lesser extent, Singapore, are important sources of foreign exchange for the Chinese economy.
- (3) Source: "Business Week", 17.10.77. A \$400 million contract for the supply of equipment of this type is also currently under negotiation with French firms (Source: "Le Figaro", 29.7.77).

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the Russians are also potential purchasers of gas-line pumping equipment. In a different area altogether, the preparations for the Olympic Games in Moscow are likely to generate large-scale buying by the Soviet Union. So far, the contracts connected with the Games are reported to be worth \$1 milliard(1).

24. Grain transactions will again be an important element of East-West trade in 1978. Because of the indifferent 1977 harvest(2), the Russians will have to import large quantities, perhaps as much as 20 million tons, mainly from the United States. For the period October 1977 to September 1978 the United States has raised the ceiling for Soviet purchases without prior consultations from 8 to 15 million tons. In Eastern Europe, Poland may purchase 3.5 million tons of grain from the United States (as compared with 2.4 million tons in 1976 and 1977) and the GDR 2 million tons (2.3 in 1976 and 1977)(3).

25. Spring 1978 should see the start of the EEC-COMECON negotiations for an agreement on economic co-operation. The outcome of such discussions is bound to be limited however as the two bodies do not see eye-to-eye on the scope of such an agreement. COMECON seems to want a comprehensive agreement with commercial provisions, while the EEC wishes to consider commercial issues separately with each of the Communist countries and to restrict its dealings with COMECON per se to specific fields such as exchanges of information.

26. In all likelihood, Western credits, and particularly officially-backed credits, will continue to play an important rôle in the expansion of Western exports. The recent granting by Italy of a credit line of \$650 million to the Soviet Union is worth noting, and so too is the grant of self-amortizing credits for specific projects reimbursable in kind. According to the Secretariat of the United Nations Economic Commission for Europe, the total of such publicly-announced loans for the period 1976 to 1980 is \$12 milliard (of which \$10 milliard are for the Soviet Union)(4). A yearly average of 2.4 milliard dollars-worth of West-European and North American sales are therefore generated by credits of this type.

(1) Source: AC/127-WP/498

(2) According to a recent statement by the Chairman of the GOSPLAN (see the 16.12.77. issue of "Le Monde"), the 1977 harvest was 195.5 million tons.

(3) Source: "East-West Trade News", 2.11.77.

(4) Source: United Nations Economic Commission for Europe Economic Bulletin No. 29. The data cover the Western countries as a whole and not just the members of the Alliance.

27. But the corollary to these Western facilities is the growing debt burden of the European Communist countries. Expressed in net terms, at the end of 1976 this indebtedness stood at between \$32 and \$35 milliard according to the Economic Commission for Europe and at approximately \$40 milliard according to most other sources. The confidence of Western bankers in the European Communist countries as buyers seems to have increased in recent months. However, for certain countries, such as Poland and Bulgaria, the debt servicing/convertible currency earning ratio seems to have reached the limit of what is acceptable.

28. As a result, Soviet and East European imports will depend more and more on their export earnings on Western markets. Most of the countries in the area (particularly Poland and Hungary) are striving to expand their Western sales by directing more investments to export sectors or introducing measures designed to encourage the production of exportable goods and the improvement of marketing. But these measures, and especially those for the adjustment of production, may bear fruit only gradually. In the immediate future, the development of the value of Eastern sales to the West will depend mainly on Western demand and price movements. Lastly, doubts remain over the future exportable Soviet oil surpluses.

29. In the short/medium term, transactions governed by clearing agreements are likely to become more important because the Communist countries are increasingly inclined to link their purchases with arrangements of this kind(1). In the longer run, the future of such operations is more problematical since they have drawbacks for the Western partners in that they tend to reduce trade flexibility in a way which is incompatible with changing Western demand and to curtail competition; they are hampered by the limited North American and West European demand for the goods offered(2) and, lastly, they are liable to push out the small-and medium-sized firms which on their own are rarely capable of marketing the goods received in exchange for what they supply to the Communist countries.

(1) Clearing agreements account for an average of between 25 and 30% of the value of the big contracts negotiated recently. (Source: United Nations Economic Bulletin for Europe, No. 29).

(2) There is, for example, an excess offer of iron pellets (project Oskol between German and Soviet enterprises) and of iron ore (project Kostamus between Finland and the Soviet Union) (source: AC/127-WP/535). Moreover, the West European chemical industry federations are increasingly concerned over Soviet bloc deliveries of chemical goods, particularly fertilizers. The European Community may become responsible for supervising clearing agreements in this area. (Financial Times, 19.10.77).

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(ii) Trade with China

30. All the information available confirms the intention of the new Chinese rulers to open up their country more fully to Western and Japanese imports. But in the immediate future any big resumption of buying by China seems improbable because no large-scale equipment contracts like those concluded in 1973 and 1974 have yet been signed(1). Furthermore, the fact that China was obliged in 1977 to import enormous quantities of grain(2) may mean that for the time being no important industrial orders will be placed because of the continuing tight repayments situation.

31. Despite a global trading surplus of some \$900 million in 1976 and a probably even higher one in 1977, China's financial position remains precarious; although its reserves do not exceed \$2 milliard its "deferred payments" reimbursement commitments probably amounted to \$1.5 milliard in 1977(3). The government still seems reluctant to take full advantage of Western financial facilities and nothing has come of the rumours of a possible £1 milliard loan which circulated in London banking circles a few months ago. At present, the Chinese seem, as in the past, to accept only the "deferred payments" system and to have limited recourse to certain short term operations such as renewable inter-bank deposits.

32. The long-term trade agreement under negotiation (which may be signed early in 1978) between China and Japan(4) may well reinforce the latter's already leading position in Chinese foreign trade. However, the Chinese also seem set on expanding their trade with Western Europe. After explanatory talks early in 1977, the European Commission sent its member countries a draft negotiating mandate which may open the way to the signing of a non-preferential trade agreement between the EEC and China.

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- (1) Chinese imports of complete industrial plant in 1973 and 1974 were worth \$2.3 milliard and only \$0.5 milliard in 1975 and 1976 (Source: Far Eastern Economic Review, 19.8.77).
- (2) According to the Financial Times (20.7.77) China ordered 11.8 million tons of grain for delivery between January 1977 and August 1978.
- (3) Sources: "China Trade Report", October 1977 and "East West Trade News" 6.7.77. Furthermore, according to the BIS statistics published by the "Far Eastern Economic Review" on 26.8.77, China had a debt of \$500 million on the London inter-bank market.
- (4) Under the terms of this agreement, between 1978 and 1982 China will supply Japan with oil and coal in exchange for equipment and semi-manufactures. According to "Le Monde" (4-5.12.77.) Japan will deliver 15 million tons of oil in 1982.

TRADE BETWEEN THE NATO AND THE COMMUNIST COUNTRIES IN 1976:
COUNTRY STUDIES

A. NATO COUNTRIES' TRADE WITH THE USSR

(1) Exports

1. In 1976, and especially during the first six months of that year, the Soviet Union continued to buy grain from the United States and Canada in huge quantities to offset the indifferent 1975 harvest(1). On the other hand the Russians curtailed imports of capital equipment and semi-manufactures with the result that there was a drop of 5% in NATO European countries' sales (\$6,078 million), which comprised mainly these goods, after an increase of 52% in 1975(2).

2. The trend in the volume of trade seems to have been similar to that described above. The unit value, in United States dollars, of Allied exports dropped by around 2.5%; the drop in real terms was therefore around 6%. This figure is in marked contrast to the 1975 one of 55%(3). However, leaving aside United States and Canadian sales of grain, which fluctuate greatly, it emerges that the unit value of sales by NATO member countries dropped by 1% in 1976; this means that their volume growth was nil(4). This is

(1) According to Soviet statistics, during the 1976 calendar year 11.9 million tons of grain (2.0 million tons of wheat and 9.9 million tons of maize) were imported from the United States and 2.0 million tons of wheat from Canada.

(2) It should however be noted that in 1976 sales of capital equipment and semi-finished goods (SITC Items 5 to 7) by the United States (\$759 million) continued to rise (+ 18%) but at a much slower tempo than in 1975 (+ 130%). (Source: US Department of Commerce).

(3) See C-M(77)12, Annex I, paragraph 3.

(4) However, the estimates of the development of unit value and of the volume of transactions deduced from it are subject to a fairly wide margin of error for statistical reasons and so can only provide an approximation. In this study the estimates have been arrived at by considering the growth of the unit values, expressed in national currency, of the total sales of capital equipment and semi-manufactures to the Soviet Union by the main Alliance country exporters and then weighting the results with the individual shares of these exporting countries in the Soviet market in 1975. Lastly, the figures obtained have been corrected to allow for varying degrees of depreciation in 1976 of the United States dollar in relation to the currencies of the other Allies.

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strikingly different from the previous trend; in 1974 the increase in real terms in Soviet purchases was between 15 and 20% and in 1975 40%(1).

TABLE I

GRAIN SALES BY NORTH AMERICAN NATO COUNTRIES TO THE
SOVIET UNION IN 1975 and 1976

(millions of \$ US)

Exporting country \ Period	Total 1975	Jan./ June 1976	July/ Dec. 1976	Total 1976
United States	1113	936	423	1359
Canada	354	326	139	465
NATO America	<u>1467</u>	1262	562	<u>1824</u>

Sources: United States: US Department of Commerce

Canada : Data provided by the Canadian
Delegation

(1) See C-M(77)12, Annex I, paragraph 5.

3. Apart from Portuguese sales, which trebled while remaining small in absolute terms (\$55 million), the highest growth rate registered was for United States (\$2,308 million) and Canadian (\$544 million) exports which rose by 26 and 35% respectively. Consequently, the North American share in sales by Allied countries to Soviet Russia continued to grow in 1976 (26% in 1975 to 32%). In Europe there was a sharp drop in exports by Belgium (-16%), Iceland (-31%), Netherlands (-17%) and Norway (-20%). The pattern of Russian purchases from its main Allied suppliers in Europe viz. the Federal Republic of Germany (\$2,684 million), France (\$1,119 million), Italy (\$983 million) and the United Kingdom (\$432 million) evolved similarly in each case, being slightly lower than in 1975 (by 2% for France and 7% for the United Kingdom).

(ii) Imports

4. NATO country imports from the USSR in 1976 (\$6,866 million) registered a sharp upturn rising by 31% compared with 9% in 1975. Measured in real terms, the increase was around 20% or twice that of the previous year(1). This rapid expansion is explained almost entirely by a further increase in Soviet oil sales which rose from 30.1 million tons in 1975 to 41.0 million tons i.e. by 36%(2). In 1976 the value of oil in total Soviet exports to NATO member countries rose to 55% (as against 48% in 1975)(3).

5. The European members of the Alliance took 96% (\$6,589 million) of NATO countries' imports from the USSR. The Federal Republic of Germany, Italy, the United Kingdom and France, in that order, were the best customers, accounting

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- (1) The rise in the unit value of Soviet exports in 1976 has been estimated at 10%; this figure is based on a comparison between the change in value and in volume of oil sales on the Allied markets as well as on available information on the world prices for the other main products making up Soviet sales. The increase in real terms in 1975 of Allied procurements from Soviet Russia has been estimated at between 5 and 10% (see C-M(77)12, Annex I, paragraph 6).
- (2) Source: Soviet data published in "The Oil and Gas Journal", 15.8.77. Imports of oil from the Communist countries by NATO countries will be dealt with in detail in the Economic Directorate's Annual Report on this subject.
- (3) Percentages based on Soviet statistics.

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between them for 75% of Alliance countries' total imports. Imports by Germany (\$1,702 million), Italy (\$1,355 million) and the United Kingdom (\$1,193 million) showed a sharp rise of 31%, 55% and 34% respectively which is in marked contrast to the small rise, and in the case of the United Kingdom, the drop recorded in 1975. By contrast, Soviet exports to France (\$915 million) rose appreciably less in 1976 (+19%) than in 1975 (+31%). For North American purchases there was a drop of 13% (27% in 1975) in United States imports (\$221 million).

(iii) Trade balance

6. Because exports expanded much faster than imports, in 1976 the Soviet Union was able to narrow its trade gap with the NATO countries to \$2,063 million (\$3,380 million in 1975). If the gap still remains wide this is chiefly because the trade imbalance with North America (\$2,574 millions; \$488 million in Canada's favour and \$2,087 million in the United States' favour) was even higher than in 1975(1).

7. On the other hand, the European members of the Alliance, who had a surplus of \$1,423 million in 1975 found themselves with a deficit of \$512 million in 1976. Of these countries, only the Federal Republic of Germany and France achieved surpluses (\$983 million and \$204 million respectively) which are, incidentally, appreciably below last year's performance (\$1,530 million and \$375 million respectively). The United Kingdom's traditional deficit further increased from \$426 million in 1975 to \$761 million in 1976.

B. NATO COUNTRIES' TRADE WITH THE EAST EUROPEAN COUNTRIES

(1) Exports

8. Exports by the NATO countries in 1976 were \$11,865 million, or 52% of all Allied sales to the Communist countries as a whole(2); the rate of growth was extremely modest (2.7%) and well below the 1975 figure of 9.9%. It would seem,

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- (1) The corresponding figures in 1975 showed a \$1,583 million surplus for the United States and a \$374 million surplus for Canada.
- (2) By way of comparison, sales to Soviet Russia and China accounted for 39% and 7% respectively of Allied exports to the Communist countries.

however, that in real terms the trend of business was slightly different for, after stagnating in 1975, procurements by Eastern Europe apparently went up slightly, by around 5% in 1976(1).

9. Imports by the East European countries did not develop uniformly; purchases by Czechoslovakia (\$1,622 million) picked up very well (from 4% in 1975 to 16.5% in 1976) and those of the GDR (\$2,505 million) grew slightly (at the same rate as in 1975 (11%). At the same time, Allied exports to Poland (\$4,093 million) marked time after rising by 16% in 1975. The same trend was noticeable for the second year running in the case of Hungary (\$1,288 million) and Romania (\$1,619 million). Bulgarian imports (\$737 million) slumped badly (-17%).

10. In 1976 the Federal Republic of Germany again had the best supplier record with its 45% share remaining virtually unchanged because of the stagnation of sales (\$5,255 million)(2). France, whose exports (\$1,616 million) were up by 11%, confirmed its position as the second most important supplier with a total share of 14%. United States' deliveries (\$1,194 million) registered a high (26%) level of growth and replaced the former third runner-up Italy, whose sales (\$982 million) fell by 15%. East European imports from the United Kingdom were down 10% (\$749 million).

(ii) Imports

11. Imports by NATO countries from Eastern Europe in 1976 (\$9,448 million or 53% of all Alliance procurements from the Communist countries)(3) rose by 16%, from one year to the next, as compared with 6% in 1975. In real terms, the movement was even more marked; after two successive years of stagnation the volume rise in East European exports in 1976 was

- (1) In 1975, the rise in the unit value of East European imports has been estimated at 10% (see C-M(77)12, Annex I, paragraph 9). On the basis of calculations identical with those described in paragraph 2 above, it has been estimated that the unit value in 1976 (expressed in US dollars) of East European procurements dropped by 2.3%.
- (2) Of which 1,694 dollars-worth went to the GDR as part of intra-German trade.
- (3) Imports from Soviet Russia and China accounted for 39% and 7% respectively of purchases by Alliance countries from the Communist countries as a whole.

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equal to the rise in value(1). This development was probably helped by the economic pick-up and the active stockpiling which occurred in 1976(2).

12. Poland, whose sales (\$2,796 million) were up by 17%, remained the NATO countries' leading supplier; its share in Eastern Europe's exports to the NATO countries was 29%, the same as in 1975. Sales by Bulgaria (\$409 million) and Romania (\$1,632 million) showed the most rapid recovery with an increase of 32% and 22% respectively, compared with a growth of 4% and a drop of 2% respectively in 1975. The 14% increase in the value of Hungary's exports (\$1,076 million) is in contrast with the drop of 2% reported in 1975. On the other hand, allied procurements in Czechoslovakia (\$1,261 million) grew by only a modest 6%, the same as last year. Imports from the GDR totalled \$2,273 million (+13%).

13. Of the NATO countries, the FRG remained Eastern Europe's best customer; its imports (\$3,853 million)(3) were up 18% and accounted for 41% of such imports by the NATO countries taken as a whole. France purchased 1,080 million dollars-worth of goods, a rise of 17%, while purchases by Italy (\$1,096 million) and the United Kingdom (\$676 million) registered a lower growth rate of 5% and 8% respectively. United States purchases from Eastern Europe (\$643 million) rose sharply by 35% after the 12% drop recorded in 1975.

iii) Trade balance

14. In 1976 Czechoslovakia's deficit increased from \$204 million to \$361 million, while that of the GDR (\$233 million) remained at roughly the same level as the year before. At the same time, Romania went from a deficit of \$287 million in 1975 to a small surplus (\$13 million) and although it remained the biggest, Poland's trade gap narrowed significantly, from \$1,708 million to \$1,293 million. The Bulgarian and Hungarian deficits also shrank from \$580 million and \$361 million in 1975 to \$328 and \$212 million.

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- (1) Available information for 1976 would seem to indicate that the rise in the unit value of Alliance country imports from Eastern Europe was nil.
 - (2) According to the OECD, stock movements in 1976 accounted for 2% of the average 5.5% growth of GNP in the seven main countries of the Alliance.
 - (3) Of which \$1,538 came from the GDR as part of intra-German trade.

15. The FRG's traditional surplus showed an appreciable drop to \$1,402 million(1) in 1976 from the 1975 figure of \$1,956. As for the other Allied countries which had good surpluses, that of the United States went up noticeably from \$472 million to \$551 million, while France's surplus (\$536 million) remained practically the same. Italy, however, registered a deficit of \$114 million after its 1975 surplus of \$108 million. The trade gaps of Denmark and Turkey further widened (from \$108 million and \$121 million to \$130 and \$145 million respectively).

C. NATO COUNTRIES' TRADE WITH CHINA

(i) Exports

16. In 1976 exports by members of the Alliance to China (\$1,676 million) dropped by 24%. This big reduction, which was also a feature of Japan's sales(2), reflects China's domestic difficulties in 1976 and the efforts of its rulers to limit the deterioration of the external payments situation.

17. With an increase of 19% in the value of its sales (\$623 million), the FRG in 1976 reinforced its leading position among the NATO countries; its share of overall Alliance sales went from 24% in 1975 to 37%. French exports (\$355 million), the second largest, went down slightly while Italy and the United Kingdom (with \$127 and \$125 million respectively) showed a more marked decline of 12% and 30% respectively. Lastly, Chinese purchases from the United States (\$136 million) were halved for the second year running.

(ii) Imports

18. After more or less marking time in 1975 (+3%), imports by the member countries of the Alliance from the Chinese People's Republic registered a fairly big rise in 1976 to \$1,251 million (+19%). Most of China's exports went to the FRG (\$271 million) and then the United States (\$202 million), France (\$194 million), the United Kingdom (\$156 million) and Italy (\$155 million).

(iii) Trade balance

19. The NATO countries' trading surplus dropped sharply in 1976 from the 1975 figure of \$1,168 million to \$425 million. The Chinese almost succeeded in bringing their trade with North America back into balance by reducing the deficit with

- (1) Including \$156 million from the GDR as part of intra-German trade.
 (2) In 1976 Japan's sales to China (\$1,663 million) were down by 26%, i.e. almost the same percentage as for the Allied countries (Source: OECD).

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Canada from \$315 to \$110 million and by achieving a surplus of \$66 million in their dealings with the United States (as compared with a deficit of \$145 million in 1975). The surplus earned by the European NATO countries also went down sharply (from \$707 million in 1975 to \$381), a drop which was solely attributable to the Federal Republic of Germany and France (\$352 and \$160 million respectively); all the other countries in the grouping either balanced their trade or showed a small deficit.

D. NATO COUNTRIES' TRADE WITH THE OTHER COMMUNIST COUNTRIES(1)(2)(3)

(i) Exports

20. After a drop of 30% in 1975, exports from the NATO countries to the other Communist countries (\$208 million) dropped again in 1976 by 15%. This mainly reflects the drop in Allied sales to North Korea (from \$144 million to \$91 million), particularly the exports of the Federal Republic of Germany and Denmark which plummeted from \$76 and \$20 million to \$42 and \$2 million. Albanian purchases (\$38 million) fell by 33% and came mainly from Italy. Purchases by North Vietnam (also \$38 million) went down 17% mainly because of the halt in Norwegian deliveries, which were worth \$18 million in 1975. Lastly, French sales almost doubled from \$13 to \$23 million(4).

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- (1) The term "other Communist countries" refers to Albania, North Korea and North Vietnam.
 - (2) The country statistics used in this section are taken from those collected by the Bureau of Intelligence and Research. (Source: Bureau of Intelligence and Research, Report No. 872 of 28th October, 1977 and 635 of 30th November, 1976).
 - (3) The OECD series from which the figures in document AC/127-D/560 are taken show a figure of \$284 million for United States sales in 1975, a figure which did not appear previously in the statistics of that Organization used in the drafting of document AC/127-D/538. Since it has not been possible to identify the destination of these exchanges by reference to the more complete IMF statistics, it is assumed that a computing error has arisen. The same applies to French imports, where the figure of \$100 million appears to be far too high. Accordingly, the comparisons between 1975 and 1976 are based on the information in document AC/127-D/538 for 1975.
 - (4) The sum of the total for each country (\$167 million) does not tally with the total of \$208 million which is given without details in the OECD statistics.

(ii) Imports

21. Sales by the "other Communist countries" on Alliance markets went down from \$154 million in 1975 to \$109 million in 1976 mainly because North Korea's sales were practically halved (from \$108 to \$58 million). Purchases by NATO countries from Albania and North Vietnam (\$33 and \$8 million respectively) remained at around the same level as the previous year.

(iii) Trade balance

22. According to the OECD figures, the NATO countries' surplus went up slightly from \$92 million in 1975 to \$99 million in 1976. At the same time, a compilation of the figures for trade between the members of the Alliance and Albania, North Korea and North Vietnam reveals an appreciable reduction in this surplus, which on this basis totalled only \$68 million in 1976. This contraction solely concerns Albania's trade deficit (from \$22 to \$5 million). North Korea's and North Vietnam's trade deficits with the Allied countries (\$35 and \$30 million respectively) remained at the same level as in 1975.

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TABLE I

NATO COUNTRIES' EXPORTS TO THE COMMUNIST COUNTRIES AS A
PERCENTAGE OF THEIR TOTAL EXPORTS

	1960	1972	1973	1974	1975	1976
Belgium/Luxembourg	3.7	1.7	2.4	3.1	3.2	2.6
Denmark	3.9	3.5	3.2	3.9	4.0	3.2
France	4.0	3.9	4.1	4.1	5.8	5.6
Federal Republic of Germany(1)	6.6	7.0	7.6	8.3	9.5	8.3
Greece	22.0	13.6	11.7	12.1	11.7	11.6
Iceland	23.1	12.1	8.7	12.4	16.9	10.4
Italy	5.8	4.7	4.8	5.9	6.8	5.7
Netherlands	1.7	2.1	2.2	2.6	2.8	2.1
Norway	4.8	3.7	3.5	4.2	5.3	3.7
Portugal	2.3	0.6	0.6	0.9	2.2	4.7
Turkey	12.2	11.9	10.1	10.6	8.8	8.6
United Kingdom	3.5	3.2	3.3	3.1	3.4	2.8
Total NATO Europe	4.7	4.4	4.8	5.3	6.1	5.3
Canada	0.8	3.1	2.7	2.0	3.1	2.6
United States	1.0	1.8	3.5	2.3	3.1	3.2
Total NATO North America	0.9	2.2	3.3	2.2	3.1	3.0
Total NATO	3.3	3.7	4.3	4.3	5.1	4.6

(1) In the case of the Federal Republic of Germany, the figures include sales to the GDR as part of intra-German trade, which accounted for 2.0% of total FRG exports in 1960, 1.9% in 1972, 1.6% in 1973, 1.6% in 1974, 1.7% in 1975, and 1.6% in 1976.

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TABLE II

NATO COUNTRIES' IMPORTS FROM THE COMMUNIST COUNTRIES AS A
PERCENTAGE OF THEIR TOTAL IMPORTS

	1960	1972	1973	1974	1975	1976
Belgium/Luxembourg	2.2	1.9	2.0	2.1	2.2	1.8
Denmark	4.9	3.4	3.8	4.6	5.2	4.8
France	2.8	3.1	3.1	2.9	3.6	3.4
Federal Republic of Germany(1)	7.1	5.9	6.2	6.4	6.4	6.6
Greece	7.9	5.5	5.5	4.7	5.3	6.8
Iceland	22.7	10.4	8.9	13.5	12.5	14.0
Italy	6.1	6.2	5.8	4.9	5.4	6.0
Netherlands	2.6	2.1	2.0	2.3	2.5	2.6
Norway	3.4	3.2	3.0	2.8	2.7	3.2
Portugal	1.5	0.9	1.0	0.8	2.2	3.9
Turkey	9.1	10.8	8.5	7.1	5.7	6.4
United Kingdom	3.6	3.8	3.8	3.2	3.1	3.6
Total NATO Europe	4.5	4.2	4.2	4.0	4.2	4.4
Canada (fob)	0.3	0.8	0.8	0.8	0.6	0.7
United States (fob)	0.5	0.6	0.8	1.0	0.9	0.9
Total NATO North America	0.5	0.7	0.8	0.9	0.9	0.8
Total NATO	3.3	3.1	3.2	3.1	3.2	3.4

(1) In the case of the Federal Republic of Germany, the figures include purchases from the GDR as part of intra-German trade, which accounted for 2.6% of total FRG imports in 1960, 1.8% in 1972, 1.8% in 1973, 1.8% in 1974, 1.8% in 1975, and 1.7% in 1976.

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