

Trade of the USSR with Southeastern Europe

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1. Pre-war Trade

In the pre-war years the volume of trade between the USSR and the countries of Southeastern Europe was insignificant both from the point of view of the Soviet Union as well as from the standpoint of the individual countries of that region. In 1937 the imports of the USSR from these countries (Finland, Poland, Czechoslovakia, Hungary, Austria, Yugoslavia, Rumania, Greece and Bulgaria) amounted to 2.6 per cent of her total imports of \$268.2 million. Similarly, Russian exports to these countries were relatively small. In all they amounted in 1937 to 3.5 per cent of her total exports of \$345.7 million. It should be pointed out that of the Soviet exports to this region, 30 per cent went to Czechoslovakia which country supplied 39 per cent of total Soviet imports from that area. Yet the Soviet share in total Czechoslovak exports amounted only to one per cent and in the total imports also only one per cent.

Not only was the Soviet Union in 1937 not an important trading partner to these countries but if anything it was rather their competitor on third markets particularly in Germany, Western Europe and in the Scandinavian countries (timber, furs, agricultural products). Soviet imports on the other hand consisted mostly of industrial machinery which these countries either did not produce at all or at prices which were not competitive with the United States, German, Swedish or British offers. An additional handicap for Southeast European countries in competing on the Soviet market with the countries mentioned above was that they could not extend the credits (with the possible exception of Czechoslovakia and Austria) which the Soviet Union received from Germany, Sweden and others.

2. Post-war Trade

These small trade links and, with the exception of Czechoslovakia and Bulgaria, cool if not hostile political relations of the pre-war years were revised in recent years in view of the war and post-war political and military commitments of the Soviet Union in this region. The causes as well as the instrument of the new trend toward a more intensive interchange of goods between the USSR and the countries of this region are as follows:

(1) The Armistice and later on the Peace Treaty provisions, imposed on Finland, Rumania and Hungary reparation payments to the Soviet Union in the total amount of \$800 million, to be paid in goods from current production. ^{1/}

(2) In taking over German assets in these countries as war booty, USSR acquired considerable economic interests particularly in Hungary, Rumania and Finland.

(3) New political and military alliances with Yugoslavia, Poland and Czechoslovakia.

In 1946 the Soviet Union imported from this region goods in the value of an estimated \$185.4 million excluding reparations and physical transfer of German assets.^{2/} Compared with pre-war years this amounts to 63.1 per cent of the total Soviet imports in 1937. The exports of the Soviet Union to this region in 1946 amounted to about \$214 million excluding exports to Rumania. This is 61.5 per cent of the total Soviet exports in 1937. ^{3/} The following is a comparison of the volume of trade of the Soviet Union with the countries of South-eastern Europe of 1937 and 1946:

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- ^{1/} The treaties of peace in Italy, Bulgaria, Hungary and Finland, U.S. Dept. of State Publication No. 2743, European Series 21. According to these treaties Hungary is to pay \$200 million, Rumania \$300 million and Finland also \$300 million.
- ^{2/} Not including imports from Rumania and Austria, the data of which are not available.
- ^{3/} The percentages are not adjusted for price changes.

USSR's Trade with Southeastern Europe
in 1937 and 1946 ^{1/}

	1937				1946			
	Export		Import		Export		Import	
	Thousands of U.S. \$	Percent of total	Thousands of U.S. \$	Percent of total	Thousands of U.S. \$	Percent of total	Thousands of U.S. \$	Percent of total
	USSR Exports	USSR Exports	USSR Imports	USSR Imports	USSR Exports	USSR Exports	USSR Imports	USSR Imports
Austria	1,305.6	0.4	1,082	0.4	40	0.01	n.a.	n.a.
Bulgaria	n.a.	n.a.	n.a.	n.a.	33,100 ^{2/}	8.3	27,100 ^{2/}	3.6
Czechoslovakia	3,320	1.0	2,722	1.0	19,600	4.9	34,500	4.6
Finland	1,871	0.5	767	0.3	38,100	9.5	34,000	4.5
Greece	2,211	0.6	478	0.2	24 ^{3/}	0.006	33 ^{3/}	0.004
Hungary	41.3	0.01	467	0.2	12,800	3.2	11,200	1.5
Poland	2,609	0.8	893	0.3	90,700 ^{4/}	22.7	58,600 ^{4/}	7.8
Rumania	545	0.2	343	0.1	n.a.	n.a.	n.a.	n.a.
Yugoslavia	137.6	0.04	270	0.1	20,000 ^{5/}	5.0	20,000 ^{5/}	2.7
Total	12,040.5	3.55	7,022	2.6	214,364	53.61	185,444	24.7

^{1/} The total of USSR's exports in 1937 amounted to \$345.8 million and imports \$268.3 million. In 1946 the total exports are estimated at \$400 million and imports (including reparations and UNRRA supplies) \$750 million. Source for the 1937 data: International Trade Statistics, 1937, League of Nations, Geneva, 1938.

Sources for the year 1946 were various publications of the governments concerned.

^{2/} The total sum for Bulgaria was estimated on the basis of available data for the months of January up to October 1946.

^{3/} The total for Greece was estimated on the basis of published figures for the months January-October 1946.

^{4/} Total includes UNRRA and reparations.

^{5/} An estimate from authoritative source.

The large increase in the total turnover with this region represents not only an important share of the Russian trade with the outside world but is significant also in the trade and the economy in general of the Southeastern European countries. Below is given a table, admittedly incomplete, of the USSR participation in the trade of these countries.

USSR Share in Foreign Trade of S.E.E. Countries in
percentages of their total trade in 1946

	<u>Export</u>	<u>Import</u>
Austria <u>1/</u>	n.a.	n.a.
Bulgaria <u>2/</u>	51.5	60
Czechoslovakia	12.0	9.6
Finland <u>2/</u>	20.1	21.3
Greece	n.a.	n.a.
Hungary <u>2/</u>	31.3	40.5
Poland <u>3/</u>	62.7	23.9
Rumania	n.a.	n.a.
Yugoslavia	n.a.	n.a.

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- 1/ Exports to and imports from the USSR are not carried in the official Austrian statistics as they consist mostly of deliveries from the "Russian" (contested booty) enterprises (oil) as well as of raw materials for such enterprises (cotton). Soviet statistics on the matter are also not available.
- 2/ Reparation and restitution payment are not included.
- 3/ Including UNRRA deliveries and reparations; if the UNRRA deliveries are excluded USSR share of Polish imports increases to 58.1 per cent.

While the relative importance of the Soviet Union in the foreign trade of these countries is likely to decrease as soon as they are able to reestablish commercial relations with the rest of the world and this holds true particularly for Finland, Poland and Rumania. Nonetheless, the Soviet Union will remain an important trading partner for all of them. The emergence of more intensive trading of the Soviet Union with these countries seems to be not of a temporary character but rather the beginning of a new trend in their trade relations and in some cases (e.g. the textile industry of Poland) a resumption of trade relations existing before the first world war. This appears to be a reflection of the policy of the latest five-year plan. In it the Soviet authorities promised that the fulfillment of the plan will "secure an abundance of principal items of consumer goods in the country." 1/ The main emphasis of the plan is on the

1/ Pravda, March 18, 1946.

development of heavy industry, particularly on engineering and machine tool production. ^{1/} To fulfill the promise in regard to consumers' goods the government of the USSR has to resort to imports so as to fill the gap in home production by intensive trading with the countries of Southeastern Europe. This view is confirmed by the series of trade treaties with the neighboring countries which have considerable light industry but not sufficient domestic raw materials for them.

Immediately after the cessation of hostilities the Soviet Union supplied large quantities of cotton, wool, and iron ore to these countries which were to be repaid either in finished goods processed from these raw materials on a commission basis (Hungary and partly Poland) or with other exports depending on the provisions of the trade agreements with a given country.

3. The Pattern of Trade

The exchange of goods between the Soviet Union and the countries of Southeastern Europe is generally carried out on a barter basis even though the provisions of the barter agreement are so constructed as to eliminate its usual inelasticities. Usually the following provisions are to be found in the agreements:

1. Determination of the time limit within which the total volume of commodities has to be exchanged.

2. The method of determination of prices. Here the normal feature is to use for accounting purposes "world prices" as expressed in U.S. dollars. The agreement as to prices of individual commodities is usually left to the corporations immediately concerned with the given transaction. On the side of the USSR it is usually the importing or exporting state firm entrusted with dealing in a given commodity with the outside world by the Ministry of Foreign Trade and on the side of the other partners it is either an individual firm or a trade association.

The agreement usually contains also the provision that in case difficulties arise in reaching agreement between the trading partners on the basis of

^{1/} The emphasis on heavy industry and within it more on engineering and machine tool production rather than on expansion of output of basic materials, especially of iron and steel, is apparently due not only to military considerations but also to the basic drive of the Soviet leaders to transform USSR from an "agrarian" to an industrial country. In this respect it is worthwhile to quote Mr. Alexander Gerschenkron who states that "the Russians have a special definition of an agrarian country. They call any country agrarian that produces automobiles but does not produce equipment for automobile factories; that produces shoes but imports equipment for its shoe factories; and so on. In short, the production of producers goods is regarded as decisive."

Economic relations with the USSR Carnegie Endowment for International Peace 1945, page 60.

"world prices" these will be determined by "an understanding between the two governments."

3. Procedure and method of delivery of goods. Penalties are provided for not keeping dates of delivery and conditions of renouncement of a given contract.

4. Provisions of payment which usually is carried out through the State Bank of the USSR and respective central banks which for this purpose are to open reciprocal accounts in U.S. dollars or in their national currencies depending on the agreement.

5. Finally, to the agreement (of which they are an integral part) are attached two lists of commodities specifying the quantity and quality of each to be exported from and imported to the Soviet Union.

It should be mentioned that in the long run the relative importance of the commodities to be exchanged will undergo considerable change. The USSR is now exporting to these countries certain commodities e.g. grain not normally on their import lists. Moreover, Soviet imports of certain commodities e.g. Polish coal will cease once her own mines are rehabilitated.

On the other hand, crude and refined oil, manganese, iron ore, textile raw materials (cotton, wool and flax), timber and synthetic rubber will increase in importance on the Soviet export list, while on the import side semi-finished capital goods such as pig iron and steel ingots will be pushed into the background by finished consumer goods (textiles and electrical household equipment) and by agricultural and industrial machinery such as threshing machines, plows, electric motors and precision tools from Czechoslovakia, Hungary and Poland.

4. Prospects for the Future

There is no doubt that the raw material supplies made available by the Soviet Union to these countries (even though the terms of trade were not particularly favorable) was of great help to them, particularly since the lack of convertible currencies made it very difficult for them to procure these raw materials on the world markets. From the long run point of view a secure large market presented by the Soviet Union might greatly contribute to the economic stability of these countries particularly after certain difficulties of trading are eliminated. However, the raw materials which they are now receiving from the Soviet Union while of great importance, cannot together with domestic factors of production, assure that their factories will produce the desired commodities, whether for export or home consumption. Additional raw materials are needed and these can be supplied only by the Western European or overseas countries. Moreover, all these countries are short of capital goods of which the Soviet Union for the time being is also a great importer rather than supplier. To secure these goods and raw materials the Southeastern European countries will have to enlarge their trade with the rest of the world. Therefore, a larger volume of trade with the Soviet Union can be achieved in the long run only pari passu with a larger volume of trade with the Western and overseas markets.