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THE ECONOMICS AND POLITICS OF SOVIET ECONOMIC
RELATIONS WITH WESTERN EUROPE

by ANGELA E. STENT

Georgetown University

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Kennan Institute for Advanced Russian Studies,
Woodrow Wilson International Center for Scholars

The Soviet Union has always pursued a dual policy in its economic relations with Western Europe and in the last fifteen years it has been successful in achieving these twin objectives -- improving its economic performance through the import of Western technology and gaining political influence through an adroit economic strategy. Soviet economic relations with Western Europe are a central aspect of Soviet policy toward the Western alliance (Westpolitik), and the Kremlin has arguably secured as many political as economic benefits from its commercial ties with the nations of the European Community. However, the Kremlin's successes in achieving both economic and political goals have to a considerable extent been a product of U.S.-West European differences over economic strategy toward Moscow, which arise from contrasting American and European interpretations of the purposes and results of detente with the USSR. To some degree, Moscow's own behavior has contributed to the transatlantic disputes over how to interpret and respond to the Soviet challenge, but U.S.-European divergences are also the result of basic historic and geographical facts of life that are not a function of Soviet policy.

As we examine Soviet economic relations with Western Europe, therefore, we must bear in mind that the Soviets have in the past decade reaped unexpected political dividends from their commercial ties with Europe largely because of American actions which have provoked disputes within the Western alliance since the invasion of Afghanistan. This paper will discuss both the economic and political aspects of Soviet commercial relations with Western Europe. It will also briefly address the West European perspective on economic relations with the USSR and speculate on future prospects.

Soviet Economic Goals Toward Western Europe Since 1969

Prior to the late 1960's, Soviet economic relations with Western Europe were relatively limited both because of Soviet policies and because of restrictive Western measures. In the late 1960's, the Kremlin decided that, rather than risk domestic political instability through the introduction of far-reaching decentralizing economic reforms, it would improve the USSR's economic performance through the large-scale importation of Western industrial goods. Thus, economic factors were a significant influence motivating the Soviet Union to pursue a rapprochement with both Western Europe and the United States. The Soviet attitude toward Western technology and manufactured imports has not essentially altered since 1969. The major change has been the removal of the United States as a major supplier of industrial goods since the mid-1970's, increasing the salience of Western Europe for the Soviet economy. (See Table 1)

Although a brief discussion paper precludes any adequate examination of methodology, there are, of course, major questions about the interpretation of data in analyzing Soviet commercial relations with Western Europe. It is impossible to give definitive answers about the impact on the Soviet economy of commercial ties with Western Europe because of the lack of adequate data. The major areas of dispute among Western scholars are: how important is foreign trade in general for the Soviet economy and how significant are West European industrial imports for Soviet economic performance? In particular, has Western technology been the key to Soviet economic development in the military and civilian fields or do Western technology imports perhaps have a net resource-demanding effect on the Soviet economy? In the absence of any consensus on these issues, any discussion of these questions is of necessity speculative.

Imports

The primary Soviet economic interest in Western Europe is in the import sector. The USSR has sought to obtain West European technology -- that is, product and know-how -- which it does not possess or cannot manufacture in the quantity and quality desired. Western imports have been used to alleviate shortages and bottlenecks in key economic sectors and to improve factor productivity in other areas. If one looks at certain key projects -- for instance the FIAT plant in Togliattigrad, various petrochemical projects, the Kursk/Oskol steel plant, the Kama River Truck Plant and, of course, the various Soviet-West European natural gas pipeline agreements since 1970 -- the Soviet strategy of selectively importing Western technology for certain sectors has brought results. However, machinery imports have been falling in real terms since 1978, and the USSR still imports much more machinery from Eastern than from Western Europe. Today, the USSR obtains 60% of its machinery imports from Eastern Europe and 34% from the West. The slowdown in the growth of Soviet imports from Western Europe since 1978 was partly a result of Soviet difficulties with absorbing Western technology and partly a deliberate effort to curb the growth of Moscow's currency debt.

While Western European technology has undoubtedly played an important role in some areas of the Soviet economy -- particularly certain kinds of advanced machinery and energy equipment -- one should also not exaggerate the significance of Western industrial imports for Soviet economic growth. The USSR's economic interdependence with the West is limited and recent CIA analyses stress that the Soviets could survive quite well without Western machinery imports. Imports of Western industrial goods have not solved the USSR's basic economic problems although they may have forestalled a worse

economic crisis. However, the Soviets have also consciously limited their dependence on Western imports for both political and economic reasons.

Although the major Soviet interest in Western Europe involves the import of industrial goods, grain and foodstuff imports have become increasingly important over the past few years, consuming 45% of Soviet hard currency earnings in 1981. The United States has traditionally been a more significant supplier of grain than Western Europe, but in the past few years, largely as a result of the U.S. grain embargo, European Community grain exports to the USSR have grown rapidly, and France and the Soviet Union have signed a long-term grain agreement.

The major constraint on Soviet imports from Western Europe is the hard currency shortage. In the first few years of detente, the USSR ran up a sizeable hard currency debt, but since 1977 it has cut back on the debt because of a record grain crop in 1976 and rising oil prices and increased oil exports. In 1982, the net Soviet hard currency debt was \$10 billion, and the USSR managed to improve its hard currency payments position by pushing oil exports and holding down imports. In overall terms, the Soviet debt situation is not critical, and the USSR is still considered to be a good credit risk, as opposed to most other COMECON nations. Indeed, the USSR is deliberately cutting back on its debt commitments, thus placing constraints on its ability to pursue other economic objectives toward Western Europe. Today, the European Community represents 67% of total Soviet trade with OECD nations.

Exports

Soviet exports to Western Europe have chiefly been energy, raw materials and some industrial goods, reinforcing the complementary nature of Soviet-Western Europe economic ties. The USSR has exported mainly in order to pay for its

manufactured imports, and received an unexpected boon in the mid and late 1970's from the sharp rise in oil prices. In 1981, for instance, energy exports accounted for 78% of Soviet hard currency earnings. Indeed, the OAPEC oil embargo and subsequent rise in prices helped the USSR in two ways. First, Moscow was able to increase hard currency earnings without having to export greater quantities of oil. Secondly, the experience with the oil embargo made Western Europe wary of continued dependence on Middle East oil and more interested in the Soviet Union as a supplier of hydrocarbons.

For the foreseeable future, hydrocarbons will be the major source of Soviet exports to Western Europe, although the potential for energy sales will be affected by the Soviet Union's own energy situation. Most experts now believe that, although the USSR will face an eventual oil shortage, the reserve situation is better than was initially predicted by the CIA in 1977. Moreover, with the world's largest natural gas reserves, and gas prices that are below those forecast for future Norwegian gas, the long-term energy export situation is still fairly promising for the Kremlin. However, the energy needs of Eastern Europe, falling energy prices and recession-led decline in energy demand in Western Europe will all act as short-term constraints on future energy export earnings from Western Europe.

One area where Soviet economic objectives have not been fulfilled and about which Soviet officials constantly complain is the poor performance of Soviet manufacturers and machinery exports to Western Europe. As a leading industrial power, the USSR considers that its finished goods should be competitive on European markets, and it would prefer to export industrial goods instead of raw materials that are subject to greater price fluctuations. Apart from some automobiles and machinery, the Soviets have not succeeded in convincing Western Europe that their finished products are

competitive, and they will probably remain a raw material exporting country for some time to come.

Future Economic Prospects

Although the Soviet economy's performance appears to have picked up somewhat in 1983, the prospects for future economic development are not bright. The inability and unwillingness of the Soviet leadership to introduce viable economic reforms is likely to continue until the Andropov succession is resolved and some generational change occurs in the ruling elite. This means that foreign trade patterns are likely to continue as they are today, with compensation deals the most popular form of Soviet economic ties with Western Europe. Energy and the development of other raw materials in Siberia will be the areas on which the USSR will concentrate in its relations with Western Europe. For the next decade, Soviet natural gas will continue to be more attractive economically than other potential sources in the non-communist, non-OPEC nations. However, the USSR has not been able to sell enough gas to meet the full capacity of the Urengoi export pipeline to Western Europe, and thus energy prospects are more uncertain than they were two years ago. The West European recession may also continue to have a dampening effect on East-West economic prospects.

In the past fifteen years commercial relations with Western Europe have undoubtedly brought the USSR substantial economic benefits, particularly in the energy sector and certain technological areas. However, they have done little to alleviate the structural problems of what remains essentially a modified Stalinist economic system run by an ossified bureaucracy. Economic Westpolitik has not produced a panacea for Soviet economic ills, although it has eased tradeoffs for the Soviet leadership. Given the small percentage of

imports that trade with Western Europe represents, one should not exaggerate its significance for the USSR.

The Politics of Soviet Economic Relations with Western Europe

It is difficult to separate the economic from the political objectives of Moscow's economic strategy toward Western Europe, and indeed the Soviets themselves have always stressed the dialectical interaction of economic and political relations. Traditionally, Soviet writers have emphasized that the USSR views economic cooperation with the West as a means of improving political relations, sometimes even implying that the Kremlin's main goal in trading with Western Europe is to give altruistic assistance to troubled capitalist economies. Regardless of whether Soviet leaders really believe, as they frequently assert, that trade promotes peace or better East-West relations, it is indisputable that there is a significant political calculation behind the USSR's commercial relations with Western Europe.

It appears that the USSR has four possible political reasons for pursuing economic relations with Western Europe. The first -- and primary -- political objective is to strengthen West European interest in continued detente with the USSR and, if possible, to induce a more accomodating European policy. By ensuring that Western Europe has a substantial interest in long-term economic ties, and encouraging the activities of economic interest groups that lobby for increased East-West trade, the Kremlin has realized that it can use economic relations to maintain or even increase its influence in Western Europe.

Western critics of East-West trade -- mainly in the United States -- have suggested a closely-related second goal, namely that the USSR seeks to use economic relations with Western Europe to create long-term economic

dependencies on Soviet raw materials, which will eventually render Western Europe susceptible to Soviet political pressure or even blackmail. This argument presupposes a degree of long-term bureaucratic coordination and planning in the USSR that is highly questionable; nevertheless, there may well be elements within the Soviet leadership that espouse this view.

A third Soviet goal, about which most Western analysts agree, is to use economic relations to separate Western Europe from the United States and thereby exacerbate conflicts within the Western alliance. This may well not have been an original Soviet goal in the late 1960's, because initially the USSR hoped to intensify its economic relationship with both the U.S. and the European Community, and this was arguably more important than possibly profiting from transatlantic quarrels over the U.S.'s more restrictive East-West trade policy. However, since the Carter administration took office, U.S.-European disagreements over whether and how to trade with the Soviets have increased, culminating in the dispute over the Urengoi pipeline.

A final and related goal has been to encourage differences between individual European nations, prevent the emergence of a coherent European Community policy on economic relations with the USSR, and play one country off against each other, thereby maximizing the Soviet Union's economic bargaining leverage. The negotiations for the Urengoi pipeline were an example of Soviet tactics that pitted different European companies and countries against each other, enabling Moscow to secure the most advantageous terms possible. Although the immediate benefits for the USSR were economic, this kind of Soviet bargaining also reinforces political disunity within Western Europe over questions of relations with the Soviet Union. Thus, the economic relationship is part of the overall Soviet strategy to divide and influence Western Europe.

Western Europe's Perspective on Economic Relations with the USSR

In order to evaluate the extent to which the USSR has succeeded in achieving the economic and political objectives embodied in its economic policy toward Western Europe, we should briefly examine the West European stake in economic relations with the Soviets. The Europeans are as interested in pursuing these ties as is the USSR for three basic reasons. The first reason is that, for the trade-dependent economies of the European Community, exports are vital for economic health and ultimately for political stability and national security. With a continuing recession and high unemployment rates, particularly in the troubled steel and machine-tool industries, all European governments are concerned to increase exports and thereby guarantee employment. The USSR is an attractive market for precisely those economic sectors in Europe that are in the greatest difficulties.

The second source of European interest is on the import side. Most European nations are deficient in indigenous energy sources, and a prime national security goal is the diversification of imported energy supplies. The Federal Republic of Germany, France and Italy are particularly important here, and regard the USSR as a reliable and desirable supplier.

The third reason for West European interest in economic relations with the USSR is political. Most West European governments are skeptical about the extent to which economic relations with the USSR can change Soviet behavior, but they all agree that the economic relationship is one channel of cooperative communication that is particularly important in an age of increasing East-West political tensions. West Germany, which represents 21% of total Soviet-OECD trade, has a unique perspective, and is much more conscious than either Britain, France or Italy of the political benefits of

economic relations with the Soviet Union. A divided nation with millions of Germans living in East Germany, the USSR and Eastern Europe, the Federal Republic is particularly dependent on the Soviets for maintaining human contacts between the two Germanys and for securing emigration of ethnic Germans. Both the Social Democrats and Christian Democrats have stressed that economic relations with the USSR serve a political function -- to secure humanitarian goals. So far, the Soviets have responded to German trade incentives by making political concessions in the humanitarian field.

Moreover, Western Europe has rejected the use of trade sanctions and embargoes in dealing with the Soviet Union. European governments claim that sanctions are politically unproductive and economically harmful, and they only accept the principle of trade incentives, as opposed to restrictions, in seeking to implement political goals. Thus, West European and Soviet interests in their mutual economic relationships largely coincide. Europeans view their East-West commercial ties as mutually beneficial, and not as a one-sided source of profit for the USSR.

Have the Soviets Achieved Their Political Objectives?

The Kremlin must have considerable cause for satisfaction when it reviews the political payoffs of its economic relations with Western Europe in the 1970's and early 1980's. The Europeans continue to be interested in maintaining relations with the USSR on all levels, since they believe that detente brought concrete economic and political results that are worth maintaining. The Europeans had limited, regional expectations of detente. Unlike the U.S., they never expected that detente would constrain Soviet activities in the third world, and thus there has been far less disappointment about the outcome of detente in Europe than there is in the United States.

Most European governments -- socialist or conservative -- acknowledge that the promise of closer economic ties has been one element in the continued Soviet interest in stability in Europe and they have continued to push for the implementation of the provisions of the Helsinki Final Act that link closer economic ties with political and humanitarian concessions. Moreover, strong business lobbies arguing for continued economic ties with the USSR exist in all European Community nations, and they have a considerable influence on government policy. Thus, the first set of Soviet goals have been achieved.

There is little evidence that the second Soviet objective -- to create West European dependencies that might render Western Europe vulnerable to Soviet political pressure -- has been realized. As Soviet-West European energy interdependence increases, the possibilities for such leverage will grow. But if the Europeans maintain their levels of dependence on Soviet energy at no more than the projected 5% of total energy supplies, the USSR will enjoy limited power in this area.

Probably the greatest Soviet satisfaction must arise from increasing U.S.-West European disputes over East-West economic ties, particularly the alliance disarray over the gas pipeline. These problems arose because the U.S. policy of promoting East-West commercial ties after 1969 changed in the mid-1970's, whereas European policies remained the same. Thus the USSR has been the passive beneficiary of an American policy of trade restrictions which the U.S.'s allies have rejected. The Soviets gained politically from the pipeline dispute, even though U.S. extraterritorial sanctions did impose economic costs on the USSR. Although Soviets claim that the project is being completed more or less on schedule, this has been at the cost of disruptions in other sectors of the Soviet economy and some Western analysts dispute the Soviet claim. Moreover, the ultimate object of the exercise from the U.S.

point of view -- namely to induce our allies to rethink their economic policy toward the East -- may remain unfulfilled. Despite the appearance of greater allied harmony in the various multilateral studies, it is unlikely, barring a Soviet attack against Western Europe, that European Community members will significantly restrict their trade with the USSR in the 1980's since they disagree with the U.S. on the security implications of trade. Thus, Moscow will continue to benefit from European interest in closer economic ties, while indirectly profiting from latent or overt allied disunity on these issues.

Moreover, the members of the European Community continue to compete with each other for favorable economic deals with the USSR, and are unlikely to be willing or able to coordinate their East-West commercial policies for the foreseeable future. Thus, Moscow will be able to profit from a competitive European market.

Has the USSR incurred any political losses from its economic relations with Western Europe? One major Soviet objective has been to avoid being the object of West European linkage strategies. The Kremlin has largely succeeded in this goal, although there are some areas where it has been willing to make compromises in return for trade -- primarily with West Germany over emigration. However, the numbers of German emigrants from the USSR have in the past five years fallen significantly. Thus, the USSR has made few visible political concessions in return for this trade. Recently, however, it appears that the desire to expand West Germany's economic ties with both the USSR and East Germany may have induced the Soviet Union to permit closer intra-German ties, despite previous Soviet warnings of the adverse effect that the stationing of Pershing missiles on West German soil would have on relations between the two Germanys. The Soviets seem to be willing to risk the potential dangers of a growing peace movement in East Germany -- fueled by

close contacts with counterparts in West Germany -- partly because of their continued interest in the economic benefits of relations with West Germany.

Outlook for the 1980's

Future Soviet economic policy toward Western Europe will depend on political and economic developments within the USSR and Western Europe, and continuity appears to be likely for the foreseeable future. Under Andropov, the USSR has pursued a more assertive policy toward Western Europe than in the last years of Brezhnev's regime, but this policy has been oriented more toward political/military than economic issues. It is likely that Moscow will continue its current policy of pursuing economic relations with Western Europe at a relatively limited level, trying to profit from the transatlantic quarrels on these issues. Economic problems within the USSR - particularly the hard currency shortage and the continued need to purchase grain -- will inhibit a qualitative alteration in economic ties with Western Europe. Unless the energy situation changes in the next few years, it is unlikely that a second natural gas export pipeline to Europe will be built. However, the energy situation is not the only determinant of pipeline projects. It is conceivable from the West European standpoint that for export reasons, and even for political reasons, another pipeline might be a possibility by the beginning of the next decade. In addition, economic problems in Western Europe will also inhibit any major increase in economic ties with the USSR, particularly in the credit granting area. Nevertheless, Europe will remain interested in pursuing a minimum form of political and economic detente, resisting American arguments against closer economic and political ties with the USSR.

The outlook for the 1980's is, therefore, mixed, and depends as much on

the fate of the international economic system as on the byzantine manouvers of Soviet domestic and foreign policy. So far, Soviet economic strategy toward Western Europe has brought considerable economic and political dividends, and has incurred few economic or political costs. As long as the Western alliance remains in disarray over East-West trade, the USSR will continue to reap these benefits. Its ability to profit from them will, however, be constrained by the rigidities of its own domestic economic system and by Western Europe's determination to resist Soviet encroachments on its independence and sovereignty.

Table 1 Soviet Trade with Selected West European Countries 1970-81
 In million rubles and percentage of total Soviet trade

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Belgium	149.0 0.7%	157.7 0.7%	174.5 0.7%	354.3 1.1%	603.4 1.5%	529.8 1.0%	541.3 1.0%	572.5 0.9%	660.8 0.9%	818.7 1.0%	1,225.3 1.3%	1,196.4 1.1%
United Kingdom	641.4 2.9%	606.8 2.6%	557.8 2.1%	715.2 2.3%	889.8 2.2%	959.3 1.9%	1,232.8 2.2%	1,332.3 2.1%	1,525.6 2.1%	1,903.8 2.4%	1,811.8 1.9%	1,503.6 1.4%
Italy	471.8 2.1%	494.6 2.1%	463.5 1.8%	613.6 2.0%	1,136.8 2.9%	1,426.8 2.8%	1,778.5 3.1%	1,880.8 3.0%	1,970.8 2.8%	2,155.1 2.7%	3,034.3 3.2%	3,486.0 3.2%
Netherlands	222.9 1.0%	224.1 0.9%	222.3 0.9%	356.3 1.1%	570.7 1.4%	451.0 0.9%	541.7 1.0%	565.0 0.9%	461.8 0.7%	1,145.7 1.4%	1,387.5 1.5%	1,477.5 1.4%
Federal Republic of Germany	544.0 2.5%	666.6 2.8%	827.3 3.2%	1,210.2 3.9%	2,208.7 5.6%	2,777.3 5.5%	3,008.8 5.3%	2,967.3 4.7%	3,304.2 4.7%	4,246.6 5.3%	5,780.0 6.1%	6,009.3 5.5%
France	412.8 1.9%	476.2 2.0%	544.3 2.1%	721.6 2.3%	941.0 2.4%	1,296.5 2.6%	1,697.0 3.0%	1,723.9 2.7%	1,814.0 2.6%	2,623.5 3.3%	3,752.7 4.0%	4,189.4 3.8%

Source: Vneshnaja Torgovlia SSSR (Moscow: Izdatel'stvo Mezhdunarodnye Otnosheniia)
 For the years 1970, 1972, 1974, 1976, 1978, 1980, 1982