Here, however, is a survey of some results of using "trade as a weapon" (against American producers!).

•Armco Chairman William Verity reports the loss of a Soviet project for gas lifting, with total scope of the project at $1 billion ($250 million per field for two fields initially). Verbal agreement had been reached, but the Soviets were forced to conclude a contract with two French firms instead because of U.S. licensing delays.

•Another Armco deal with the Soviets to produce cold-rolled dynamo steel valued at $350 million was lost (except for 10 percent which Armco retained in the project) because of lack of Eximbank credits. Japanese and French firms were able to offer such credit.

•Verity also projects that expansion of U.S. exports to the Soviet Union up to the $20 billion mark during the next five years would be quite feasible, if it were not for the restrictions.

•The government of Iran offered nuclear contracts for over $36 billion to built over the next 10 years. The U.S. government demanded that Iran agree to the nonproliferation guidelines, Iran refused, and the U.S. lost the contracts.

•Cancellation of the sale of Sperry 1100 UNIVAC computer to the Soviet news agency Tass lost a deal valued at $100 million. According to Sperry, the computer business has a very large overhead just for completing government paperwork. Because of delays, contracts have been taking almost twice as long to wind up as a few years ago. There have been other less publicized cancellations such as that of the sale of Control Data's Cyber 76 to the Soviet Union two years ago.

•Nuclear restrictions have virtually put the nuclear business out of the export field and may put them out of the nuclear business as well. At least 14 projects were lost in 1977 because of "uncertainties and delays" over the contracts. This does not include the Iranian offer. Westinghouse has predicted that the industry could get contracts for at least 85 reactors in the next two years, with each reactor valued at $1.5 to 2 billion.

•Electronics Industries Association cites as an example the Australian government demand to a U.S. exporter that the firm, as part of its bid, guarantee that a license would be forthcoming. The company obviously couldn't meet such a demand, and so lost the contract.

•Deals to Libya have been suspended involving at least $900 million and several U.S. companies: Boeing, Lockheed, and Oshkosh Truck Corp. The truck deal was curtailed because the trucks "could be used to haul Soviet-built tanks across the desert." Aircraft sales were suspended because they might be used for troop transport.

•A United Technologies (UTC) trade statistician threw out the "ballpark figure" of $6 billion as the effect on his company of the Libya decision (UTC makes engines for Boeings) and the "human rights" clampdown against Argentina (UTC makes Sikorsky helicopters, which have been stopped). He said that they have also been severely affected by what he perceived as a "clear shift" from a former strictly defined military strategic criterion to the inclusion into that category of what used to be classified as nonmilitary. This shift could be costing the aerospace industries upwards of $10 billion this past year, he estimated, and future losses to the industry would climb rapidly if the present policy continued. Keep in mind that the realization of an aerospace contract takes at least five years, and perceived future obstacles to this completion quickly lose contracts.

•Sperry Rand officials would give no figures, but noted that additional losses result from the collapse of the dollar overseas. Many companies are cutting back on international growth because they have depended on local foreign markets to refund their debt. That debt is now too burdensome.

•DuPont is restricted from selling certain kinds of x-ray equipment to hospitals in South Africa because the equipment might be used on troops!

•Loss of trade to South Africa is estimated by some sources at at least $5 billion.

•The Electronics Institute estimates their industry's losses last year at $10 billion in trade, and $1 billion in new capital formation.

—Maureen Manning

East bloc debt: why the scare?

Last month, media across the country suddenly discovered the Soviet sector debt question, and to hear them tell it, the economies of Eastern Europe were practically in the bankruptcy courts.

The source for this alarming news? The Brookings Institution, the private think-tank that has staffed so much of the Administration that it has a semiofficial role. And if the national press was hyping the report to make the average reader think a debt rollover crisis would hit before the weekend, the Brookings report was nonetheless alarmist enough on its own.

The report, *Economic relations between East and West: prospects and problems*, was aimed at the financial community, and its line was unequivocal: if you have any money, stay away from the East bloc. Their debt burden is catastrophic, and anyway, who'd want to help them even if it wasn't? The only way they can pay is by competing with the West in international markets.

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Table 1
What East bloc debt looks like

	1976 Net Debt (in Billions of Dollars)	1976 GNP (in Billions of Dollars)	1976 Exports (in Millions of Dollars)	1976 Imports (in Billions of Dollars)	1976 Debt as % of GNP	Ratio of Debt to Hard-Currency Exports
Comecon Countries						
Bulgaria	2.3	20.9	486	969	11.0	4.7
Czechoslovakia	2.1	58.0	1,730	2,370	3.6	1.2
East Germany	4.9	66.2	3,000	4,350	7.4	1.7
Hungary	2.8	26.8	1,321	1,894	10.4	2.1
Poland	10.2	92.2	3,329	6,634	11.1	3.1
Romania	3.3	52.6	1,893	2,116	6.3	1.7
TOTAL	25.6	316.7			8.1	
Soviet Union	16.2	921.7	9,712	15,228	1.8	1.4
Cuba	1.3	10.6	744	1,305	12.3	1.7
TOTAL Comecon	43.1	1,249.0	22,215	34,866	3.5	1.8
Developing Countries						
Argentina	6.7	37.5	3,916	3,033	17.9	1.7
Brazil	25.9	145.9	10,100	12,500	17.8	2.6
Colombia	2.6	20.1	1,866	1,991	12.9	1.4
Mexico	26.0	79.0	3,298	6,030	32.9	6.5
South Korea	7.4	25.1	7,715	8,774	29.5	1.0
Spain	10.7	102.3	8,723	17,455	10.5	1.2
Venezuela	2.6	31.0	9,289	6,445	8.4	0.3

But cold war and trade war posturings aside, enough has been said about the East bloc debt to the West to merit a serious study. And any serious study would show the following:

• There is less foreign debt lien on the East bloc countries both absolutely and per GNP, than on virtually any of the other growing economies in the world, including much of Western Europe.

•The stable East bloc economies are equipped with some of the soundest and most technologically advanced industrial infrastructure anywhere. Whatever else may be said, the Brookings implication of Third World basket case status isn't going to sound plausible.

• Most important, the four countries — Japan, West Germany, France, and Italy — which together hold the lion's share of East bloc paper are the very countries that are calling for massive increases in loans and investments in the East, not the other way around.

But the whole Brookings report is predicated on one point — trade war. "First," Brookings states, "Eastern exports of manufactured goods, added to those coming from the newly industrializing developing nations, may increase the pressure for structural change and adjustment in the Western industrial economies. Second, the developing countries may encounter added competition in Western markets (from the East bloc — RF). Third, the advanced sector economies may find themselves subject to competition from the East in exports to the developing countries."

Such markets competition inevitably leads to trade war, Brookings predicts, and notes that the decline in Western trade restrictions against the East "is now being offset by a resurgence of protectionist measures intended to alleviate unemployment and balance of payment difficulties in the West. New quotas, informal or 'voluntary' controls on exports, and more frequent resort to antidumping procedures are all manifestations of this trend."

Trade war in lieu of economic growth has been a policy at Brookings ever since the City of London banks launched their assault on the dollar. Should it succeed, says Brookings, the East bloc won't be able to pay its debts to the West. "Continued borrowing (by the East bloc — RF) on the scale of recent past," Brookings warns, "...would almost certainly pose serious problems in the near future. Unless the East's trade deficits can be sharply curtailed, which seems improbable, some additional debt will have to be con-

tracted.... But the rate of growth of the debt from 1974 to 1977 cannot be sustained."

Brookings bemoans the fact that the East bloc will not adhere to the "conditionality" clauses of the IMF, an euphemism for IMF control of a sovereign nation's economy and frequently the imposition of genocidal "conditions," because the bloc refuses to participate in that London-run body:

> "The International Monetary Fund is available to provide financial aid that is conditional on acceptable plans for 'stabilization.' The eastern European countries (except Rumania) are not members of the IMF, and there is no body of experience on which to base a debt rescheduling exercise with one of the CMEA's centrally planned economies.... The fact that the USSR labels its economy 'socialist' is not the problem. Yugoslavia wears the same socialist label and is able to take part in the GATT and IMF to its own and the institutions' satisfaction. But it appears most unlikely that the USSR will be prepared at any time soon to decentralize economic decision-making, to allow market forces scope to work, and to modify or to abandon its discriminatory trade practices."

Stripped down to its essentials the Brookings report's premise is a steady-state stagnation of world trade — a zero-growth model of competing blocs causing debt foreitures.

Yet to make this patently unacceptable premise palatable to the average U.S. businessman, Brookings has honey-coated it with a series of "statistical" tables on the size and character of East bloc debt which are half-truths or outright frauds. We turn our attention to that aspect of the report.

Table 2

Trends in range of spreads above LIBOR* on syndicated Eurocredits charged to Comecon and Western borrowers

(January-May 1978)

Borrower	Spread
Prime Western Borrowers (i.e., France, West Germany, Japan)	
Bulgaria	0.625-0.75
Czechoslovakia	0.875-1.00
East Germany	0.75
Hungary	1.00-1.125
Poland	0.625-0.75
Romania	1.375-1.5
Soviet Union	0.875-1.0
Comecon Banks	0.75

*London Inter-Bank Overnight Rate

Source: International Currency Review, Vol. 10, No. 4

The East bloc debt

Table I is a combined chart showing the 1976 GNP, exports, and net debt of the leading Eastern European countries and Cuba, as well as the same information for some of the most industrialized non-East bloc debtor developing nations. The usefulness of this table is that it permits us to show net debt as: (a) a ratio of GNP; and (b) a ratio of hard-currency exports. This will show what the $50 billion in East bloc debt to the West looks like.

The Brookings report "Economic Relations" implies, using the same 1976 debt figures, that the East bloc debt is among the worst and potentially most volatile in the world. A quick glance at Table I shows the opposite. At the end of 1976, the Soviet Union had incurred external debts which *were equivalent to about 60 percent of Brazil's*, but the Soviet Union's GNP — it is the world's second largest economy, after the U.S. — was *six times larger than Brazil's*. Likewise, the debt position of Poland, which is usually cited as the "basket-case" of the East bloc, represents only 40 percent of the debt accumulated by Mexico, but its GNP was 17 percent larger than Mexico's. Similar highly favorable comparisons match up for other East bloc countries.

Further comparison shows that East bloc nations' debt position to be far better than the debt position of several OECD nations, notably Greece, Turkey, Spain and perhaps Great Britain and the Scandinavian nations. The East bloc's debt position is of course incomparably advantaged over all of the world's nonindustrialized less developed countries (LDCs). In fact, by a process of elimination, we quickly find that the East bloc has among the best debt situations in the world, using just the standard accounting criteria.

This conclusion has, in fact, been long recognized privately by the largest commercial banks, which have given the East bloc extremely favorable lending spreads, as is demonstrated in Table 2. Indeed, only the large industrial firms of West Germany, Japan, France, and the U.S. get better lending spreads.

Furthermore, from the West's standpoint, it is also widely recognized that before having a debt crisis which would cut off Western imports and disrupt their internal economies, there are a number of options available for the East bloc nations. These range from temporarily cutting back on *selected* imported items — a policy which on the whole the East bloc would only do under painful compulsion — to Soviet bulk sales of gold to raise foreign exchange, or to the East bloc drawing on still open and abundant Western government credit lines.

Soberly assessing these contingency options, the *International Currency Review* writes in Vol. 10, No. 4, in an article titled, "Communist Country Hard Currency Debt in Perspective":

"In the first place, the Comecon group can always reduce imports from the West further. If similar

Table 3

Official public export credit Comecon countries commitments to by Western governments

(at the end of 1977, in millions of U.S. dollars)

Commitments offered to:	Bulgaria	Czecho-slovakia	East Germany	Hungary	Poland	Romania	USSR	Total
France	540	350	480	110	1,800	390	3,400	7,070
West Germany	140	450	1,200	65	1,900	430	3,300	7,485
Italy	80	70	530	70	800	200	1,950	3,700
Japan	280	0	400	200	450	500	3,150	4,980
Total Above 4 Nations	1,040	870	2,610	445	4,950	1,520	11,800	23,235
Austria	183	85	455	395	600	36	260	2,014
United Kingdom	30	50	45	40	960	100	720	1,945
Canada	0	3	0	0	454	9	173	639
United States	0	0	0	0	408	74	463	945
Other	265	195	465	95	950	215	750	2,935
Total	1,518	1,203	3,575	975	8,322	1,954	14,166	31,713
Estimated Drawings on Official Credits	798	841	2,455	460	5,775	1,256	10,730	22,315
Undrawn Balances	720	360	1,120	515	2,547	698	3,436	9,398

One-half of the East bloc's $50 billion in debt is held by the private banks and public credit institutions of four western nations: West Germany, France, Japan, and Italy. The above table shows that 73 percent of the East bloc's **public debt** of $22.3 billion is held by the governments of these four nations. By comparison, the governments of the United Kingdom, the United States, and Canada hold less than 12 percent of the East bloc's public debt.

reductions were made this year as in 1977, about $1.5 billion worth of export earnings derived from sales to Western countries would be made available for the servicing of foreign debt. Secondly, the Comecon countries can raise additional Euromarket credits for maturity periods of, say, up to seven years. The rate at which they borrowed from this source during the first six months of 1978 was nearly one-third higher than in the same period last year; and if the same rate of borrowing persists in the second half of the year, the total raised will exceed $3 billion.

"Thirdly, Soviet sales of gold could easily contribute a further $2 billion, bearing in mind the high dollar-denominated prices now available on the free market. Fourthly, there is every probability that Western banks will roll over a large proportion of the amount due to them by way of repayments this year; and in the unlikely event of roll-overs not being conceded, the East Europeans can fall back on nearly *$10 billion worth of credits not yet taken up, or else can draw from the $8 billion worth of deposits in Western banks*...At the same time, the Comecon countries have improved their creditworthiness with Western banks by reducing the increase in their new indebtedness last year to $7.5 billion, compared with increases of $12.8 billion and $9.5 billion in 1975 and 1976 respectively."

Expanding trade is the answer

However, the *International Currency Review* article overlooks the central point, a point that gives the Brookings Institution and its epigones fits of apoplexy: that the matter of East bloc debt, as with East-West relations generally, is a hard-and-fast political question and not a matter of accounting methods.

The political nature of the East bloc debt is centrally acknowledged by the four nations which collectively hold *one-half of the East bloc's* total government and private bank contracted indebtedness: Japan, West Germany, France and Italy (see Table 3). It is these four nations that have individually decided — at the

government level with industrial and banking sector collaboration — to double levels of trade during the next two to five years between the East bloc and themselves. This trade commitment not only makes the outstanding East bloc debt as good as gold, but promises to open up massive new revolving lines for East-West trade.

This commitment to double levels of trade was not only concretized in a series of recent East-West trade summits, but was reaffirmed by the launching by West German Chancellor Schmidt and French President Giscard of France of the European Monetary System, and its correlate the European Monetary Fund at Bremen, West Germany on July 6 and 7.

The new monetary arrangements, the seed crystal of a new monetary system, will establish massive leaps in world trade as part of a global high-technology development plan, tossing additional tens of billions of dollars into trade credits for this purpose by early 1979.

For the West, such doubling of East-West — as well as North-South — trade commitments represents absolute necessity for economic survival. West Germany's trade with the East bloc last year, for example, represented nearly $9 billion, or almost 8 percent of Germany's two-way trade, no trifling matter for a high-technology exporting nation like Germany.

The East bloc side is more than prepared to increase trade with the West. As the East points out (and even Brookings had to grudgingly admit), the growth in East-West trade exceeds world trade levels.

Moreover, there has never been an East bloc unwillingness to trade. In fact, it was only the industrial collapse in the West during 1973-76 and the consequent wrecking of East-West trade that caused the great indebtedness of the East bloc, as the bloc was forced to import to feed its growing economies, but could not export because of depressed markets. This caused the bloc's large trade deficit, whose financing caused its indebtedness.

Brookings for depression

The continuation of expanding East-West trade as a policy option for the U.S. — as well as for American business — is thus greatly desirable. It is against this policy option of expanding East-West trade that the Brookings Institution, on behalf of its London overseers, has attempted to suggest a suspension of lending to the East bloc, thus precipitating a debt crisis.

However, there are two crippling flaws in Brookings' outlined policy option. First, the United States — even when combined with Britain and Canada — hold less than 20 percent of total private and public East bloc debt, giving the U.S. only marginal leverage over the bloc's debt question.

Second, and more important, even if the Brookings strategy were to be followed, and even if the East bloc economies were to default on their debt — an unlikely eventuality — the Eastern economies would not collapse and be overrun by a regenerated brigade of Winston Churchill's old regiments, come to "liberate the Eurasian land mass." Instead, such a debt default would probably produce an economic crisis in the West, shutting down the levels of trade necessary to keep the Western economies alive.

—Richard Freeman

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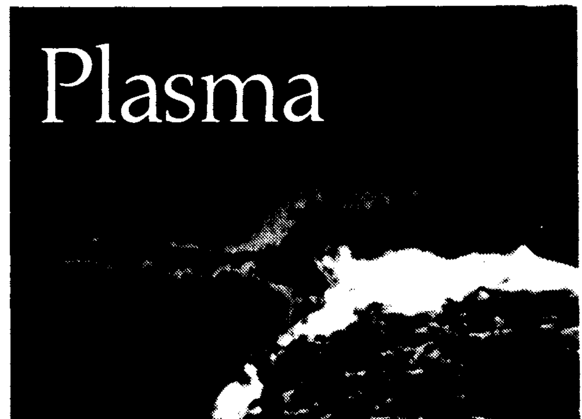

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