New dynamics of East-West trade

The Soviets' 1979 plan is for city-building despite constraints

Each year the Soviet Communist Party Central Committee and the Supreme Soviet meet to ratify the coming year's economic plan. This year the meeting took place days before the announcement from Western Europe that the new European Monetary System is set to go into operation on the first of the year, and the published proceedings of the two sessions show how much the USSR needs the international trade recovery, and economic and political stability, which the EMS is designed to bring about.

Soviet economic policy is typified by the national commitment to the largest development projects in the world, on the Siberian and Far East frontier. The communication to Western European leaders of the Soviet development outlook, in fact, was instrumental in the process of forming the EMS. West German Chancellor Schmidt's presentation to the Bremen summit that drafted the EMS last spring came immediately after the agreement he reached with Soviet President Brezhnev to begin a new level of entente, with a 25-year economic cooperation and trade agreement between West Germany and the USSR. France, too, is aiming to triple its Soviet trade in the short term.

The USSR is thus *de facto* party to establishing the EMS, although full-fledged political support for it is still a matter of fierce contention in Soviet circles. But in advance of a many-fold increase in East-West trade as part of an EMS-centered revitalization of trade financing and industrial expansion in every part of the world, in advance even of the realization of those large projects contracted during the past two years of renewed East-West European trade, the Soviet sector is constrained by the pre-EMS state of affairs. In spite of being the major area of uninterrupted industrial growth in the world, it has had to reduce the rate of that growth throughout this decade.

There are several circumstances forcing a slow-down.

Table 1. Soviet growth indicators in the 10th Five Year Plan

(1976-1980)	National income	Industry	Industry A: means of production	Industry B: objects of consumption	Capital investment
8th FYP (1966-70)	41	50	51	50	21
9th FYP (1971-75)	28	43.3	45.7	36.7	42
10th FYP (1976-80)	26	36	38	32	26
1976	5	4.8	5.5	3	4
1977	3.5	5.7	6	5	3
1978	4	5	5.3	4	3
1979 (plan)	4.3	5.7	5.8	5.4	4.5
"1980" (gap)	7	10.6	10.8	11.7	9.6

Five-year growth rates for 1966-1975 are shown at top of table, for comparison with slowed growth in the current plan. The annual rate for "1980" is not a projection, but an indicator of how far off pace plan fulfilment is; it is the rate of growth that would be needed in 1980, presuming plan targets for 1979 are met, in order to reach the five-year target set for the entire 1976-1980 period.

Military spending takes a bite out of the Soviet budget — officially given as 17 percent. If support industries were itemized, the proportion would be greater. The military, furthermore, requires a large part of the highest-technology industrial resources of the country. The international situation — chiefly the unsure outcome of Strategic Arms Limitation Talks, dangerous crises in the Middle East and Southeast Asia, and a British-led drive for rearming NATO — has mandated an increase in Soviet sector military spending, which was just voted up by the Warsaw Pact leadership and made public after Romanian President Ceausescu publicly balked at going along.

For two decades, the chemicals industry has been the most frequent victim of "trade-offs," in favor of military hardware, within the Soviet economy. There are severe lags in chemicals as a result. Mineral fertilizer production has grown at less than half the rate charted for it during the 1976-1980 period.

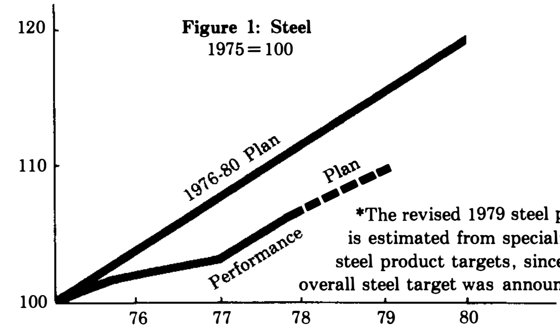
Chronic bottlenecks drain investments into "sinkholes" where they have only a short-term maintenance effect and are lost to industries which could lay the basis for future growth. The most notorious areas of loss are agriculture, construction, and transport. In the latter two, problems are compounded by a proliferation of bureaucracies designed to solve the tangles, but actually, according to Soviet exposes, engaged in passing the buck to each other.

Agriculture, where 30 percent of the Soviet labor force is tied up, is a special, urgent situation where a "one-time" large infusion of capital, together with a vigorous political effort among the relatively backward rural population, is required to vault productivity to the level of United States agriculture.

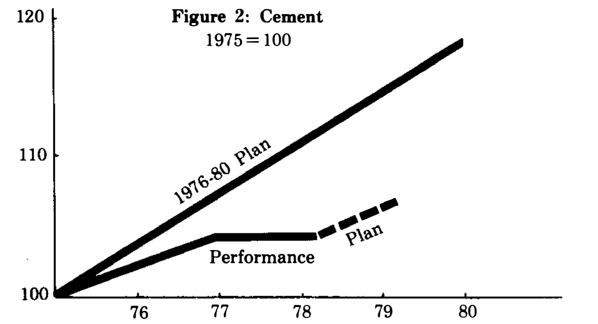
East-West trade has not taken off, for two reasons. Political obstruction, especially in the case of Soviet-American trade (see *Executive Intelligence Review*, Vol. V, No. 43, Nov. 7-13) is one. The other is the overall contraction of world trade. The market for Soviet exports in the advanced Western countries has shrunk due to the recession. In the developing sector Soviet exports have grown less than they could, if the West were to promote large-scale development in the Third World in collaboration with the Soviets.

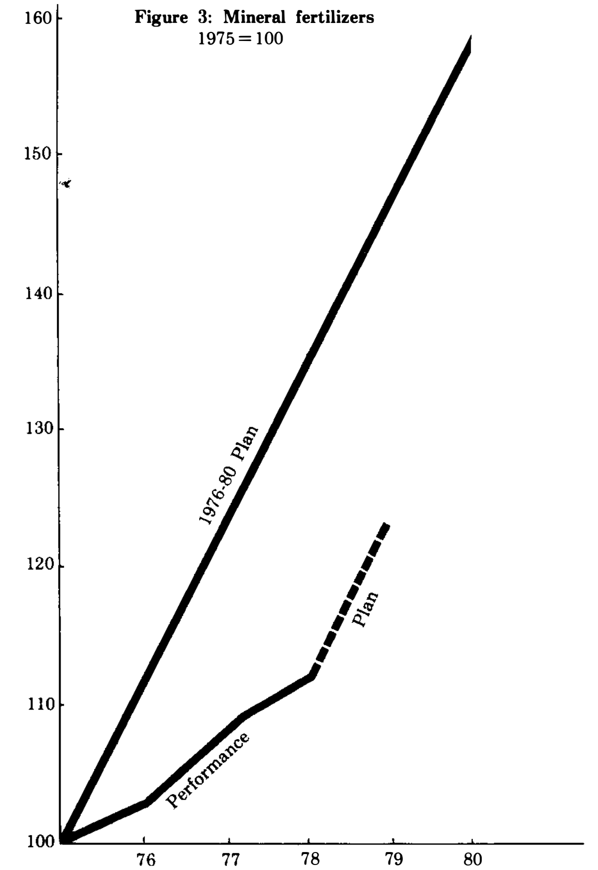
Without more revenues from exports, the Soviets have to borrow more than they want to in hard currencies in

Mid-course revision in the Soviet Five Year Plan in key industries



*The revised 1979 steel plan is estimated from specialized steel product targets, since no overall steel target was announced.





order to finance imports of plant and equipment from the West. The result is that the portion of total Soviet trade that is carried on with other socialist economies, after declining from 65 percent in 1970 to 56 percent in 1975 and 1976, has now rebounded to 58 percent in 1977, 59 percent in 1978, and a planned 61 percent next year. Soviet trade with the advanced sector capitalist countries declined accordingly.

The EMS has the potential not only to reverse that trend by a rapid increase in Soviet-West European trade, but to unclog the USSR's chronic bottlenecks. That is what would result from a global application of EMS principles, i.e., long-term low-interest credits for industrial development, to East-West and triangular East-West-South trade.

An East-West trade policy of that sort is not, as the Brookings Institution would have it, doing favors for the Russians. As in the precedent of the 1922 Rapallo treaty between Soviet Russia and Germany, advantages are already accruing to West Germany and France thanks to their Soviet agreements: not only orders for industrial exports, but enhanced opportunities for political stability.

Corresponding agreements between the two greatest economies and greatest military powers, the USSR and the United States, could begin with the $30 billion, 28-project "shopping list" the Soviets handed to U.S. businessmen at the Moscow meeting of the U.S.-USSR Trade and Economic Council this month.

Soviet President Brezhnev keynoted the Party Central Committee plenum with his second major economic policy report to the Central Committee this year. As in his July plenum speech, which was devoted to agriculture, he defined both short-term and broad, long-term goals.

The Soviet economy, Brezhnev began, has reached "a stage which is new in essence — the construction and development of a number of territorial-production complexes, especially in the eastern parts of the country." These complexes are industry-centered urban growth areas, places in Siberia where entire new cities are under construction.

In the first three years of the current Five Year Plan, Brezhnev reported, these development projects will have been responsible for the entire national gain in oil production, almost all the increase in natural gas output, and a significant part of growth in the electric power industry, mining, and truck and tractor production.

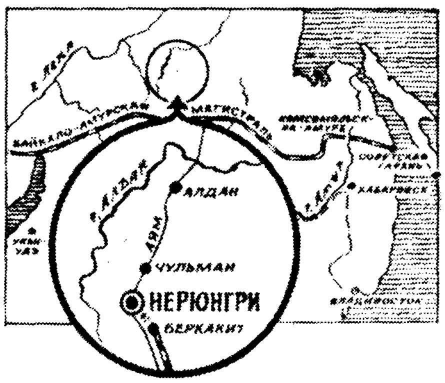
Creation of these and other projects, however, has been limited by serious problems in basic industry: metals and fuel. Brezhnev said that investments would have to be concentrated in those two sectors to the tune of 23 billion rubles in 1979 (17.4 percent of a total of 132 billion rubles in planned capital investments), compared with 50 billion rubles over the preceding three years (13.7 percent of total).

Together with the energy and metals sectors, Brezhnev placed transport as a priority for capital investments, as part of a policy to rectify the national investment structure. (A 26 to 27 percent portion of investments goes

City-building in the USSR

During 1978, the Soviet Communist Party Central Committee weekly Ekonomicheskaya Gazeta *switched the focus of its cover stories away from single branches of industry viewed nationally, in favor of a series of feature articles on territorial-production complexes. Mentioned by Leonid Brezhnev in his speech this month as a radically new phenomenon in Soviet industry, these complexes are industrial expansion projects organized as integrated units. In most cases, they are new cities, built from the bottom up — a smaller version of the "nuplex" city-building concept.*

Because urban construction "from scratch" will be increasingly featured in Third World development under the expansion policies to be begun via the European Monetary System, the Siberian example is important to study. Here are sketches, using the material from Ekonomicheskaya Gazeta, *of two city-building projects in Siberia:*



The South Yakutsk complex

Centered on the new city of Neryungri, the area is at the north end of the most important cross-line shooting off from the Baikal-Amur Mainline (BAM), the second trans-Siberian railway, now under construction. Potentially the locus of Soviet-Japanese-American cooperation on a vast scale, when the multi-billion-dollar Yakutsk natural gas project eventually gets under way, the South Yakutsk complex at this time is based to the inefficient agriculture sector, which is a serious drain but cannot be reduced without immediate undesirable effects on food supplies.) He then discussed transport at greater

and leakage of grain and other farm products. A special Central Committee commission on transport was formed earlier this year.

Heteronomy and bottlenecks

Investments in 1979 will be dispersed over fewer projects, Brezhnev announced. This reflects, in part, an increased emphasis on modernization and reconstruction of existing capacity as opposed to building new plant, especially in the older industrial areas in the European USSR. It is also an assault on the heteronomy which prevails in the labyrinthine construction industry bureaucracies, where instances of building fences in vacant lots in order to fulfill plan targets of fence footage have been reported in the Soviet press. By reducing the number of construction sites, the plan aims to outflank such maneuvers and reduce the lead-time on new projects.

All of these measures were dictated by an aggravation of existing problems in the first three years of the plan.

"The situation is improving too slowly in capital construction," Soviet planning chief Nikolai Baibakov reported. "The volume of construction projects not completed is growing without justification, while the new capacity is going more slowly than planned. The plan is not being met for railroad transport of a number of important commodities. The targets for introduction of new technology in the national economy are not being met fully." Brezhnev stressed "the personal responsibility of leading economic cadres" at all levels, warning that "organizational measures" would be taken — i.e., heads would roll — if Central Committee decisions were not implemented promptly. He summed up the war on bottlenecks and bureaucracies:

> "The question arises of how to explain that in spite of our clear and major successes in economic construction and the gigantic growth of the scale of our economy, we are unable for such a long time to free ourselves from those bottlenecks, which keep us from advancing ever more rapidly and dynamically. Each concrete shortcoming can be explained by individual reasons. But here, at the Central Committee plenum ... we must approach the essence of the question and look at what is fundamental. And what is fundamental is that the economic bodies, ministries, and agencies are slow in shifting the entire economy into the mode of intensive development.

Intensive development

"Intensive development" refers not only to the concentration of resources but to mechanization. The plan anticipates a drop-off in growth of available labor in the 1980s, when fewer young workers will be entering the work force, due to demographic patterns associated with the loss of 20 million Soviet citizens during World War II.

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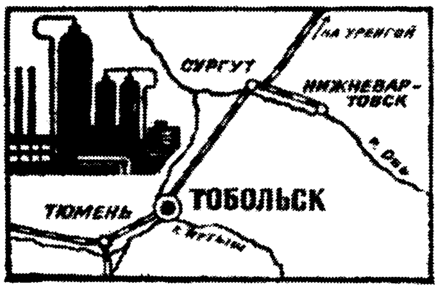
on coal mining. By 1983, the Neryungriskii coal cut will be producing four million tons of fuel coal and nine million tons of coking coal annually, up from the present two million tons total mined in the area. A coal refining factory has already been built. Coal from Neryungri is dispatched by the BAM and the Transsiberian to power stations throughout the USSR and to the Pacific Coast for export (the Japanese have invested in the railroad and will buy coal). A new power station is also under construction in the city itself. Other factories are slated for the next decade: a house-construction plant for 100,000 square meters of apartments per year, a reinforced concrete plant, a ceramics factory, a mechanization center for the coal industry, and food industry installations for meat, poultry, and dairy products.

The Tobolsk complex



Unlike Neryungri in the Far East, Tobolsk is one of the old cities of western Siberia. Situated on the Irtysh River, a tributary of the great Siberian River Ob, it is right in the center of the Tyumen district, where the greater part of increases in Soviet oil production has come from in this decade. The Tobolsk project hinges on a petrochemicals complex, in which West German investment is planned under the 25-year cooperation agreement of May 1978. Because of its geographical advantages, reports *Ekonomicheskaya Gazeta*, Tobolsk "was chosen to be the location of a new center of the petrochemicals industry"; supplies other than the locally extracted oil can be brought in by river. Hence a second feature of the complex is the complete reconstruction and enlargement of the city's river port on the Irtysh. The refinery itself will be built in stages, so that it can supply semi-finished products before the entire range of processes is available in Tobolsk. A new power plant will

simultaneously. On the opposite bank of the river will be "a new, modern city" to house the growing population of petrochemical workers.

It means putting a premium on science and technology.

Siberian development is science-intensive, requiring a constant generation of new technologies to withstand climatic and other unique conditions in the Far East. The long-term agricultural program for raising meat and other food consumption in the Soviet Union to "scientifically established norms," as Brezhnev promised last summer, centers on mechanization and the construction of agro-industrial complexes, or farm-food factories.

In capital construction, Soviet planning chief Baibakov noted that the portion of investments going to machinery (equipment) would rise again from last year's 36.8 percent. And in the electric power sector, where overall growth is to be 4.8 percent, high-technology nuclear power generation will leap by 21 percent.

Industry in 1979: gap to be narrowed

The growth rates announced by Baibakov for 1979 are higher for the key parameters of National Income and Industrial Production than in 1978, but 1978 was one of the slowest years for Soviet industry since the war (see Table I). It appears that the 1979 plan will be considered a success if the gap between the original five-year course charted for 1976-1980 and what has actually been accomplished does not widen any further, as it continued to do in such industries as construction materials and chemicals this year (see Figure 1, 2, and 3).

The uncertainties facing the economy were underscored when planning chief Baibakov failed to give overall quantitative targets for some industries, including steel. The 1978 steel plan of 154.6 million tons will not be met, since the projected year-end result is at best 152.5 million tons.

The basis for setting higher overall growth rates for 1979, as well as for the surpassing plan fulfillment in 1978 (despite the shortfall in key sectors such as steel), is not yet an anticipated long-term recovery. Both reflect the immediate impact of a vastly improved agricultural performance in 1978, which has had ripple effects throughout the economy. Brezhnev announced a grain harvest of 235 million metric tons, the highest in Soviet history and almost within the range set for the *next* Five Year Plan, 1981-1985. Rebounding from the disappointing 1977 harvest of 194 million tons, the crop signals a better chance of recouping from the 1976-1978 slide of the plan pace.

The farm sector, however, cannot be counted on to jolt the Soviet economy forward. Recapturing the high growth rates of the 1960s (five-year industrial growth went from 50 percent in 1966-1970 to 43.3 percent in 1971-1975 to the current period's planned 36 percent, which will not be met) will mean steps to reverse stagnation in the key economic sectors which determine future growth: machine tools, capital construction, energy. This can happen only through the expansion of East-West trade, now playing a marginal role in Soviet growth; imports from the advanced capitalist countries have hovered at the equivalent of only 10 to 11 percent of Soviet investments since 1975.

— *Rachel Berthoff*

The debate over the

As the new European Monetary System moves toward its Jan. 1, 1979 implementation, the months-long debate in the Soviet Union and other socialist countries over the new institution is coming sharply to a head. The fight is between those who see the EMS as a way to implement a "Grand Design" for East-West detente, and those who would push the USSR into the role of a petulant outsider, gloating over what is perceived to be the inevitable collapse of capitalism.

This battle is now raging openly on the pages of the Soviet press. *Pravda*'s authoritative International Week column of Dec. 17 — written by Arkadii Maslennikov, author of numerous recent articles cheerleading the collapse of the dollar — delivered the most powerful blast against the EMS to appear in the Soviet press to date. The fact that Italy acceded to pressure from "the leadership of the European Economic Community (EEC) and local conservative circles," and decided to join the EMS, Maslennikov wrote, "confirms once again that the 'European Monetary System,' like all the policies of the 'Common Market,' is being developed by the monopolies, in the name of the monopolies, and for the monopolies." He went on to cite a spokesman of the French Communist Party that the EMS is a scheme for the domination of Europe by "West German corporations."

In the next day's *Pravda*, a quite different and unprecedentedly accurate analysis emerged. The newspaper's London correspondent wrote that Ireland's entry into the EMS "provoked a shock in London and especially in the financial circles of The City. . . . Dublin's decision unquestionably far exceeds in its importance the framework of a mere 'Common Market' problem. It indicates a most radical step on the road to financial and economic independence by the former British colony, since for the first time the Irish national currency is splitting from the pound sterling, to which it has been linked up to now."

The real story behind the Soviet debate on the EMS first broke in the *Executive Intelligence Review* of Sept. 26 - Oct. 2, 1978. The *EIR*'s Stockholm bureau discovered an article in the July-August issue of the Moscow University *Bulletin/Economics* by A.I. Stadnichenko, a senior economist at the Institute of Oriental Studies of the Soviet Academy of Sciences. Stadnichenko vigorously defended the use of gold in *all* economic systems, and predicted a revival of gold on an international scale in the near future. This is one of the crucial features of the new EMS.

Stadnichenko identified the International Monetary Fund and its political supporters as the main enemies of gold, and labeled the IMF's Special Drawing Rights (SDRs) as their main weapon in the "antigold campaign."

Most importantly, Stadnichenko attacked by name the Soviet economist who has most vociferously backed antigold, pro-SDR policies, G. Matyukhin of the Institute