

Soviet Union in covert drive to import Western military technology

by David Goldman

The Swiss banks registered an official tantrum in their newspaper, the *Neue Zürcher Zeitung (NZZ)*, after President Reagan agreed to Defense Secretary Weinberger's plan to impose a Defense Department veto upon technology exports to 15 nations, especially Sweden, Austria, and Switzerland. The Swiss organ complained that a recent *Wall Street Journal* series on transshipment of military-related technology to Russia disguised as U.S. exports to Austria was a "warning shot fired off by the Pentagon," adding that the Pentagon victory in an internal administration dispute with the Commerce Department "was not a specially favorable omen for Switzerland," either.

The *NZZ* added Jan. 17 that if the Swiss were to voluntarily subject themselves to the Coordinating Committee for Multilateral Export Controls (CoCom), the West's instrument for controlling exports to the East bloc, "such a repudiation of Swiss sovereignty would stand in open contradiction to the Swiss policy of neutrality, and without doubt open up Switzerland to the accusation [by the Russians] that Switzerland is supporting the United States in a one-sided fashion to the disadvantage of the East bloc in the present economic-technological confrontation. . . . The continuation of the conflict between American and Swiss concepts of law, the well known controversy over the extraterritorial imposition of American law and Swiss sovereignty, would be pre-programmed."

The Swiss journal is referring to the longstanding battle over the fate of one of the Soviets' favorite covert trading conduits, commodity trader Marc Rich, a business partner of Henry Kissinger. This time, the Swiss fear, the United States has really called the Swiss bluff.

ABM-related imports

Analysts of the Soviet economy in West Germany and Great Britain believe that the Soviets are importing heavily from the West, much more heavily than the official numbers might indicate, in an effort to obtain certain types of technology, principally in the electronics field, which have direct military applications, including applications to anti-ballistic-missile defense.

Very quietly, the West German government is conducting a study examining both Soviet imports and Soviet sources of covert funding. The tentative conclusion of analysts in-

involved in this study is two-fold: First, the Soviets are earning a great deal more than the official data report, through such activities as gold and other commodity and foreign-exchange market speculation, as well as the "Bulgarian connection" narcotics traffic between Western Europe and the opium belt from Lebanon to Pakistan. Second, the Soviets are importing a great deal more than the official data show, particularly in the technology field, through covert channels. The latter allegation is confirmed by studies conducted by London *Financial Times* analysts, and published, in part, in that newspaper's private newsletter on East-West trade matters.

The thinking of the German government study is straightforward: Between 1973 and 1983, the huge rise in oil prices handed the Russians a cumulative total of \$60 billion in foreign exchange as a windfall profit. The Russians have, since the early 1980s, known well that the price of oil could not be counted upon indefinitely as a source of foreign exchange. Indeed, the Soviets have withheld most exports of Eurals crude oil (which represents a small fraction of total Soviet petroleum exports) during the past two months, refusing to sell below their post price of \$28 per barrel in a market where comparable grades of North Sea crude may be had on the market for \$27.05 to \$27.35. This has not been devastating for Soviet foreign exchange earnings, but it points to the potential problems involved. So their priority shifted to unconventional means of earning foreign exchange, and these have succeeded in building up their foreign assets to many times the Soviets' reported \$13 billion of bank deposits in the West.

These studies overlap, to a certain extent, with analysis released by *EIR* in January 1984 regarding the Soviets' covert world financial empire; *EIR*'s study concluded that the Soviets had a portfolio of no less than \$50 billion in the West, mainly invested in partnerships with Western corporations which supply the Soviets with a number of requirements. The Soviet "fondo" included access to over \$50 billion in foreign-exchange credit lines for speculative purposes, *EIR* reported.

Official Soviet trade data: phony

As far as the official numbers are concerned, the OECD's exports to Comecon fell 7.9% in nominal terms and 6% in real terms to \$16.7 billion during the first half of 1984, while imports rose by 5.3% in nominal terms and 8.8% in real

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terms to \$19.9 billion, producing a \$3.2 billion half-year trading surplus for Comecon. This surplus was almost as large as the entire surplus for 1983.

Of the Comecon countries, the change between 1982 and 1984 (as reported in the bulletin of the Moscow Narodny Bank) is:

OECD Exports to	
USSR	+ 11.9%
GDR	+ 3.0
Poland	- 7.4
Czech.	- 15.1
Hungary	- 26.9
Romania	- 33.1
Bulgaria	- 11.2
OECD Imports From	
USSR	- 4.1
GDR	+ 0.1
Poland	+ 17.4
Czech.	+ 1.3
Hungary	+ 6.9
Romania	+ 29.4
Bulgaria	- 12.3

However, within this total, there are still some interesting points of strength, especially the U.K., Switzerland, and West Germany. Between January and September of 1984, Comecon trade with these three countries behaved as follows:

	CMEA EXPORTS TO		CMEA IMPORTS FROM	
	1983	1984	1983	1984
UK (British Pounds)	0.986	1.350	1.193	1.494
FRG (German Marks)	21.8	21.3	20.8	24.8
SWITZ (Swiss Franks)	1.81	1.74	1.78	1.80

Moscow Narodny is especially pleased with the British development. They write, "In our last Bulletin we raised a cautious cheer for the progress of trade this year between the U.K. and the U.S.S.R. The trend continues and figures released by the U.K. department of Trade and Industry show that British exports to the Soviet Union during the first three quarters of 1984 are over 50% up on the figures for the same period of 1983. This is most encouraging, especially when one adds that sales in 1983 were greater by around 25% over 1982. What is more, Soviet purchases from industrially developed countries, which cover about 30% of U.S.S.R. imports, have not increased this year." The BRD figures, as listed above, show a rise of about 20%, while the Swiss figures are stable.

So much for the official data. A number of doubts are raised, however, by the multibillion-dollar borrowings of the East bloc during 1984. These are estimated at \$3.33 billion by London's *Euromoney* magazine, but those figures do not include many West German credits to East Germany and other categories of lending. Supposedly, the Soviets and their allies are cutting imports to build down external debt levels, after the debt crises of Poland, Hungary, and Romania during the early 1980s. If that is true, why did they borrow so heavily last year, West German government analysts ask?

The more likely explanation is that the usual variety of Soviet and allied imports were cut in line with prevailing Soviet policy of cannibalizing the civilian economy for military purposes, and that the Soviets' import-acquisition program has concentrated on the covert, military-related high-technology side.

The big problem in evaluating Soviet trade data is so-called transshipments, or exports to the Soviet Union through cooperative "third countries," including outright smuggling, in which all the invoice data is likely to be fake; i.e., if some criminal ships a computer to Moscow via Sweden, he will in all likelihood declare its value for Swedish customs purposes at a fraction of the real price, while the Soviets pay him off through a Swiss bank account.

The prototype of such smuggling is the Richard Mueller case of 1983, in which Swedish customs (under U.S. pressure) stopped a pair of U.S. computers from embarking for Russia via Stockholm; the computers had first been shipped to South Africa, and then repackaged. However, as noted below, the problem is no longer computers as such, but a wide variety of more sophisticated and harder-to-trace components.

That is what the Swiss are upset about. Although the Swiss have their own system of customs declarations to control so-called transshipments to the East, the *Neue Zürcher Zeitung* noted Jan. 17, "The American authorities point to a major defect in the system, namely, that goods which have escaped the controls of their country of origin and reached Swiss points of reloading, such as airports or duty-free zones, often disappear from sight. The Swiss Economics Ministry

concedes the defect. Goods going through these transshipment points do not actually undergo the otherwise-applicable export licensing procedure, which makes easier their uncontrolled transshipment to third countries.”

The specific categories of goods involved center on certain computer and related components, rather than computers as such. The analysts of the *Financial Times* note that there are irreconcilable discrepancies between Soviet and OECD data, especially for such categories as “computers” and “computer spares (components).” They have detected a major change in Soviet buying patterns during 1983-84, including a collapse of computer exports and an explosion of computer components. During the published 1984 report on Soviet 1983 trade, the Soviets introduced a data line on computer spare parts alongside their “computers” entry in their official yearbook of trade statistics.

What is interesting is that the Soviet data showed irreconcilably higher results than the OECD data published by the organization’s Paris secretariat. At the same time, according to Western computer manufacturers who claimed to have

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visited the facilities, the Soviets created state-of-the-art manufacturing facilities to mass-produce 8- and 16-bit computers, presumably entirely for military purposes. The 16-bit computer is called “Iskra.” The Soviets’ reported problem is no longer manufacturing computers of that size, but rather ensuring quality control, and their component imports reflect the need to supplement such production.

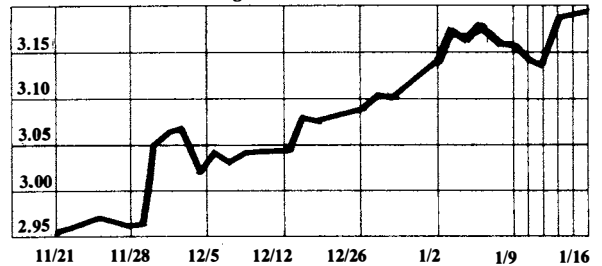
Manufacturing capacity for computers reflects highly sophisticated Western technology, which the Soviets presumably put together as a matter of total military necessity, with the single-minded priority with which the Soviets have eliminated virtually all civilian investment in favor of their military buildup.

The nature of the Soviets’ investment as well as the reported foreign technology-acquisition program corresponds to Western strategic estimates that the Soviets are proceeding on a crash basis to emplace an anti-ballistic missile system.

Currency Rates

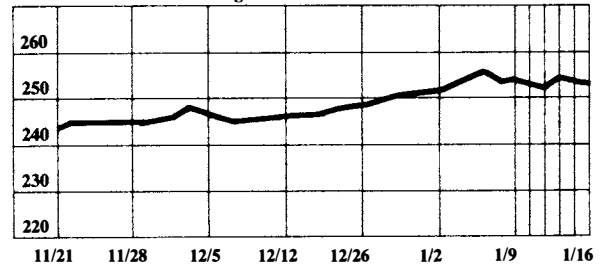
The dollar in deutschemarks

New York late afternoon fixing



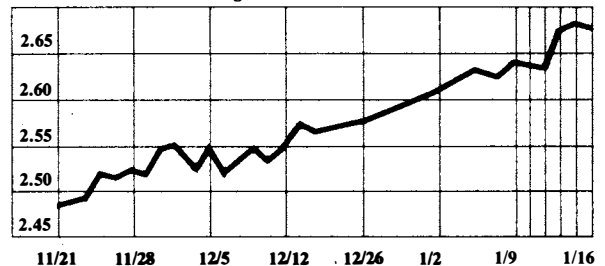
The dollar in yen

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The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing

