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COMMITTEE OF ECONOMIC ADVISERS

THE TREND TOWARDS ECONOMIC INTEGRATION WITHIN COMECON (1)

Note by The French Delegation

The tenth anniversary of the "Council for Mutual Economic Aid", which is the Eastern Europe organization for economic co-operation, provided an opportunity for highlighting the results achieved as regards co-ordination of the national economies in that area. Many articles in newspapers and reviews have been devoted to this subject and are a source of information on the development of COMECON.

The economic relations between the USSR and the People's Democracies faithfully reflect the fluctuations of Soviet policy within the "Socialist Camp". The attitude of Stalin, who regarded the countries won over to Communism through the war as primarily a strategic glacis and an area ripe for economic exploitation, has been replaced by the far more subtle policy whose character Khrushchev endeavoured to describe at the XXIst Congress.

The creation of an economic agency, in which all the European Countries of the "Camp" are represented and to which the others now send observers, commended itself to the Soviet leaders, both as an economic necessity and for ulterior motives of a political nature. By close co-ordination of the national economies of the "Socialist Camp" the USSR derives a dual advantage: it not only promotes the economic progress of the bloc as a whole, but also strengthens its political cohesion. These various motives account for the course which the activities of the Council for Mutual Economic Assistance have progressively taken and for the trend towards economic integration which is now discernible. They

(1) This document will be considered if possible at the next meeting of the Committee, on 30th September, 1959.

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also shed light on some of the difficulties which the COMECON is apparently experiencing.

I. THE PROGRESSIVE CONSOLIDATION OF THE COMECON

It was in 1949 that the USSR decided, as a rejoinder to the inception of the Marshall Plan in Western Europe and the restrictions placed on East-West trade, to set up an organization for economic co-operation between the European countries of the "Socialist Camp". Set up on 25th January, 1949, the "Assistance Council" appears to have confined its activities for several years to the conclusion of a number of bilateral commercial agreements.<sup>(1)</sup> The problem to be faced at that time had, in reality, two aspects: the popular democracies were urgently in need of products essential to the recovery and development of their economy; for its part, the Soviet Union, which had not by any means repaired all the devastation caused by the war, was seeking to use for its own benefit certain resources which conquest had placed within its reach in Central Europe (expropriated companies in Germany, composite companies formed in Roumania and Hungary).

The results of these early years of co-operation proved disappointing because all the People's Democracies, simultaneously and without forethought, had set out on the road to industrialization<sup>(1)</sup>. Bottle-necks occurred which mutual co-operation was unable to remove.

The situation changed shortly after the death of Stalin, in step with the change in the economic policy of the USSR. Bilateral co-operation was abandoned in favour of an attempt at co-ordinated planning, and this was conducive to the expansion of the COMECON agencies. In principle, co-ordination was introduced mainly in the engineering and machine-tool industries. This new development, however, did not nullify the consequences of the previous mistakes and it does not seem that the USSR was at that time prepared, in the interests of the People's Democracies, to make the effort which would have been necessary to improve their economic situation, and above all their living standards, to any appreciable extent. This was not to come about until the Autumn of 1956.

The 1956 uprisings in Poland and Hungary appear to have taught the Soviet leaders an economic as well as a political lesson. One of Moscow's many grievances against the members of the Anti-Party group was the allegation that they opposed extension of economic aid to the countries of the "Socialist Camp".<sup>(2)</sup>

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- (1) Article in the Review "World Economy and International Relations" No. 4/1959.  
(2) See in particular Sabourov's speech at the XXIst Congress.

Whatever the truth of this accusation, the fact that it was made shows that the question has at least been debated, thus revealing a change in Soviet policy. Furthermore, it was in 1956 that the USSR began to grant a series of credits, in particular to Poland, Hungary and Eastern Germany.

In 1957, concurrently with this change in Soviet policy, the role of the COMECON also began to change. The co-ordination of planning, which had at first been based on strict centralisation, seems now to be conducted on more flexible lines, with greater consideration for the capabilities of the individual countries concerned. Co-ordination covers longer periods and is applied to investment programmes as well as production schedules.

This reassessment of the tasks of the Council for Economic Assistance has been accompanied by the strengthening of its policy-making and executive bodies. The latter have gradually increased in number and type to cope with the demands of ever more far-reaching co-ordination.

Apart from the plenary session, normally held once a year, COMECON has a number of permanent bodies, the "Assembly of Delegated Representatives of Member Countries of the Council for Mutual Economic Assistance", a permanent secretariat and specialised standing committees covering extremely varied fields<sup>(1)</sup>; economic questions, co-ordination of industrial equipment, geological research, energetics, electric power and harnessing of the hydraulic resources of the Danube, coal, oil and gas, heavy metallurgical industry, non-ferrous metals industry, engineering, chemical industry, food industry and consumer goods, building, timber and cellulose, agriculture, transport, foreign trade. Furthermore, a joint nuclear research institute has been in existence in Moscow since 1952 and a multilateral clearing system has operated since the Warsaw session in 1957.

The many branches of economic activity covered by the standing committees is evidence of the large-scale effort at co-operation made by the COMECON. This co-operation, which now includes the co-ordination of long-term planning and division of work at the international level, will eventually lead to true integration of the economies of the member countries.

## II. FORMS OF COMECON CO-OPERATION

The Council for Mutual Economic Assistance was set up with a view to pooling the resources of the USSR and of the

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(1) The list has been taken from the survey by M.C. SIMON in "Etudes et Conjonctures" completed by the article by A. TOKASEVA in "Law and the Soviet State", No.2 - February 1959

People's Democracies. This co-operation has taken many different forms ranging from a straight-forward undertaking to deliver goods to a division of work based on detailed study of the production capabilities of the individual member countries. Simultaneously, in the universities, as well as in technical and scientific circles, multilateral exchanges are taking place, which include study courses, collaboration between research institutes and the pooling of construction plans for various types of equipment.

Of all these aspects of the work of the Council for Mutual Economic Assistance, the most important is certainly the allocation of production tasks to member countries. This division of work generally covers a seven-year period which corresponds to that of the next Soviet Plan. It covers most of the major economic sectors and, in the light of the information published in the Soviet Reviews, a rough idea can be obtained of the measures contemplated in each of the main branches.

(a) Power

Three countries, Hungary, Eastern Germany and Czechoslovakia are increasingly in need of fuel. Furthermore, Poland and Bulgaria are short of oil and gas. To make good these deficiencies, exchanges have been organized or are planned between the countries which have the greatest power resources and those which cannot meet their own requirements.

Within the COMECON, the two chief exporters of coal are Poland and the USSR. In 1957, Poland delivered 7 million tons of coal to its fellow members and 4 million tons of peat. A marked increase in these figures is forecast for the coming years. In particular, Poland is expected to receive a Czechoslovakian credit of 250 million roubles for the improvement of mining plant.

Similarly, the German Democratic Republic has granted Poland a credit of 400 million roubles for the extraction of lignite, to be used mainly for the production of electric current. The credit granted by Eastern Germany, like the one granted by Czechoslovakia, will be repaid in the form of coal deliveries.

The chief suppliers of oil to the People's Democracies are the Soviet Union and Rumania. The USSR is planning to deliver in 1965 5 million tons of oil to Czechoslovakia and 4.8 million tons to the German Democratic Republic. Rumania is already exporting 3 to 4 million tons to the COMECON countries. The Council, at its tenth session in December, 1958, finalised the practical arrangements for carrying out a construction project to be financed in common by the countries concerned, for a pipeline linking the oil-fields of the Volga to Poland and Eastern Germany on the one hand, and Hungary and Czechoslovakia, on the other hand.

Similarly, as regards electric power, the Council, at its last session held at Tirana in May 1959, planned the construction of new high-tension lines with a view to increasing the exchanges of current already made between Czechoslovakia, Poland, Eastern Germany, Hungary, Bulgaria, and the Ukraine.

Furthermore, joint surveys are being conducted by the countries bordering the Danube with a view to creating a series of dams and hydro-electric plants in the Iron Gates of Zimnitcha and Izmalla areas.

Collaboration also extends to the employment of nuclear power and the construction in Eastern Germany, Czechoslovakia, and Poland of atomic piles.

(b) Metallurgy

Most of the People's Democracies are poor in iron ores. Poland and Czechoslovakia, however, possess chromium, manganese, molybdenum, wolfram and other ores. The iron and steel industry of the People's Democracies therefore depends primarily on Soviet iron ores, and Polish, Czechoslovakian and Soviet coke. The goals of the Soviet seven-year plan are planned to enable the USSR to expand its exports of ores from the Krivoirog, Koursk or Kertch basins, thus tending to increase still further the dependence of the People's Democracies. The Soviet deliveries of iron ores to Czechoslovakia, for instance, are to rise from 3.6 million tons in 1958 to 10 million tons in 1965. Czechoslovakia, for its part, is to increase its industrial supply facilities by participating in the construction of ore enriching plants in the USSR.

Despite these imports of raw materials, the industry of the People's Democracies is unable, for the time being, to meet all its requirements of pig-iron and steel. Consequently, the German Democratic Republic, Rumania and Hungary are themselves increasing their imports, mainly of Soviet pig-iron and rolled steel.

(c) Chemical industry

The chemical industry is one of the fields in which co-operation is most necessary in the COMECON. The raw materials for this industry are rather unevenly distributed among the member countries and this explains the need for exchanges, and, in certain cases, for co-operation in the development of the existing resources.

Potash salts are found in the USSR and Eastern Germany, phosphate deposits in the USSR, sulphur in the USSR and Poland, and the USSR and Rumania have oil by-products. Furthermore, the Soviet Union is able to supply the COMECON countries with all the

timber required for the manufacture of paper pulp and cellulose.

On the basis of these resources, co-operation has been established in certain fields for the creation of an industrial network capable of satisfying the requirements of the COMECON member countries. Czechoslovakia has allocated a credit of 100 million roubles to Poland to improve the sulphur extraction industry. Rumania is providing Hungary, through a special pipeline, with the natural gas needed for the operation of the chemical industry "combinats", while Eastern Germany has been granted a credit on "easy terms" by the USSR for the expansion of its chemical industry. This credit, whose amount has not been divulged, is to be repaid, in principle, in the form of deliveries of chemical products. Lastly, Rumania, with the help of the German Democratic Republic, Czechoslovakia and Poland, has constructed a "combinat" for the production of cellulose from reeds.

This division of work, which enables each COMECON member country to concentrate on the manufacture of the products for which it is the most suited, is accompanied by a far more detailed and comprehensive allocation of tasks in the field of chemical plant production.

(d) The engineering industry

One of the main obstacles standing in the way of the economic expansion of the Eastern bloc is constituted by the problem of the production of capital goods. The industrialisation policy followed in all the countries within the "Socialist Camp" calls for the production of machinery on a very large scale and this compels the main constructors of plant to export part of their production to their less favoured COMECON partners.

The co-ordination effort made over the last two or three years, in particular, is directed at the gradual specialisation of individual countries in the production of a certain number of well-defined types of machines. "In Czechoslovakia," O. BOGOMOLOV writes in the Review "World Economy and International Relations", criticism has been levelled at "the fact that the country produces about 80% of the items in the world nomenclature of machinery production. This is obviously a hindrance to the organization of mass production."

The work of the Industrial Equipment Co-ordination Committee and the Mechanical Engineering Committee resulted in a series of decisions designed to restrict the range of machinery produced and to allocate production among the member countries. Thus, in 1956, the different types of lathes produced in Bulgaria was reduced from 25 to 13, in Hungary from 20 to 13 and in Rumania from 14 to 6. Each country was given a special field, the manufacture of precision lathes being assigned to Eastern Germany,

turret and facing lathes to Poland, upright lathes to Hungary, large-gauge planing lathes to Rumania, etc.

This specialisation has gradually extended to most fields of mechanical engineering. For instance, the communiqué of the Eleventh Session of the Council states that large rolling-mills are to be produced primarily by the USSR and Czechoslovakia, while medium-sized rolling-mills will be manufactured in Hungary and Eastern Germany, and wire-drawing equipment will be made chiefly in Hungary and the German Democratic Republic.

In the scheme which is thus gradually being developed by the Council, Czechoslovakia is to concentrate on the production of chemical, power and metallurgical plant, electric and fuel-driven locomotives, presses, foundry equipment and lathes. Czechoslovakia has therefore been allocated a heavy engineering sector.

On the other hand, the German Democratic Republic, which imports rolled steel, is to devote itself more particularly to the production of lighter items and precision tools: optical instruments, electronic equipment, measuring and control appliances, textile machinery, etc. Poland is to specialise in mining requirements, plant for the metallurgical and chemical industries, transport equipment, certain types of lathes and machinery for the food industry.

Thus, the division of work in the field of mechanical engineering takes the form both of specialisation in a well-defined industrial branch and of a more detailed allocation of production tasks within certain branches. The machine-building industry itself affords a fairly comprehensive example of the economic integration towards which the COMECON organization seems to be steadily moving.

This trend nevertheless raises a number of problems, political as well as economic, which are reflected in the comments of the Soviet reviews.

### III. PROBLEMS RAISED BY THE CO-ORDINATION OF THE NATIONAL ECONOMIES

Co-operation between the COMECON member countries, which has got beyond the stage of long-term commercial agreements and is now proceeding in the direction of the co-ordination of plans and the division of work at the international level, creates ties of mutual dependance which exert a direct influence on the political relations of the COMECON countries.

The economic developments of the last ten years have not effaced any of the original characteristics of the COMECON member

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countries, but have tended rather to accentuate them<sup>(1)</sup>. The two main industrial regions of Central Europe are still Czechoslovakia and Eastern Germany, whose exports for 1957 included respectively 40% and 43% of machinery and capital goods, as against 26.4% and 28% in 1950<sup>(2)</sup>.

Conversely, the figures for Soviet foreign trade reveal the increasing share of capital goods in Soviet imports and of raw materials in Soviet exports. Exports of machinery from the USSR fell from 35.3% to 25.9% between 1950 and 1957. Thus Eastern Germany and Czechoslovakia are being led increasingly to play the part of suppliers of capital goods to the Soviet bloc.

This division of work on the basis of the capabilities and potential capacity of each country is essentially sound, and exists in a similar form in Western Europe. Viewed against the COMECON background, however, a number of factors assume special significance and help to create ties of close dependence within the Council for Mutual Economic Aid.

The interdependence of the COMECON member countries is all the more marked because the East is virtually a closed market and within this market trade between the "Socialist" countries is of considerable economic importance to some of them. Comparison of the figures in table I (Annex I) reveals the relatively important part played by such trade in the economies of Czechoslovakia and the German Democratic Republic and even in that of Hungary, Bulgaria and Poland. On the other hand, statistics demonstrate the high degree of self-sufficiency of the Soviet economy. Then again, by far the greater part of the trade of the People's Democracies (between 2/3rds and 4/5ths) is with countries of the Eastern bloc. This being so, the leading feature of the somewhat closed system operated by the Council for Mutual Economic Aid, is the lack of balance between the USSR and the other member countries. The Soviet Union is seen to be the only one of them which has, and is allowed the right to have a balanced economy in which all branches of production are represented.<sup>(3)</sup> Despite its imports of capital goods, it is also the country least dependant on its COMECON partners. The People's Democracies, on the other hand, use increasingly large quantities of raw materials of Soviet origin (table III, Annex II) and interchange crude products and

(1) See table II, Annex I

(2) "Voprosy Ekonomiki" No. 1/1959" - "New Stage in the Division of International Socialist Work".

(3) In an article in "Kommunist" No. 5/1959 on "The Trend of the World Socialist System towards Communism", FEDOSSEEV and POMILOV state that outside the USSR, only China has set about expanding all sectors of its economy.



capital goods. Increasing integration and the division of work, particularly in the field of machinery construction, makes each of these countries more and more dependant on the others. One sign of this integration is the synchronisation of the long-term plans and co-operation programmes of the COMECON countries, the tendency being to bring them more closely into line with the time-phasing of the Soviet plans<sup>(1)</sup>.

The experience of the last few years has also shown that the co-ordination of economies begun with COMECON necessarily implies a process of increasing harmonisation between member countries. The co-ordination of statistical returns was begun in 1958 but it is with respect to prices and wages that the most troublesome discrepancies seem to arise. The further the Council for Mutual Economic Aid proceeds with the international division of work on the basis of economic criteria, the greater becomes the problem of the choice of investments to be made and of methods for comparing their relative value. This comparison, which is already difficult to make within a state whose price system is as unco-ordinated as that of the USSR, becomes much more complex when it is a question of comparing production costs within two different countries. This is a task which the Council for Mutual Economic Aid appears already to have tackled in certain specific cases, since the granting by Czechoslovakia of a loan for the Polish coal mines was decided on the basis of the varying yields of such an investment in the two countries. The Soviet economists, like those of the People's Democracies, seem to be aware of the existence of the problem and are anxious for a uniform price system to be set up within COMECON later "which could be used for the planned specialisation of production"<sup>(2)</sup>.

It is certain, however, that this trend towards economic integration will have repercussions at the political level. Knowledge of the strength of national feeling probably explains the insistence with which the Soviet propagandists always present the Council for Mutual Economic Aid as an agency for consultation and discussion, with no authority over its members. In principle, the latter support the Council's decisions voluntarily. This propaganda line stresses the care taken by the Soviet leaders to maintain the fiction of mutual and profitable co-operation, on a basis of strict equality.

(1) An article in the Review "Planovoe Khoziaistvo" No. 5/1959 even states that when preparing forecasts of the economic expansion of the Soviet for the years 1959/1965, account has been taken of the contribution which the other countries in the "Socialist Camp" may be able to make towards the implementation of the Seven Year Plan through their active co-operation.

(2) Article by BOGOMOLOV in "World Economy and International Relations".

It was also with this principle of equality in mind that KHRUSHCHEV at the XXIst Congress, stated that all the countries of the "Socialist Camp" were to accede "almost at the same time, to the highest phase of Communist society." In the doctrinal comments to which this thesis has given rise since the Congress<sup>(1)</sup>, Soviet writers insist on the impossibility, under present conditions, for any single state to build communism in isolation, and on the need for co-operation between all the countries of the "Communist Camp" to achieve this aim. This theory implies in fact, as is revealed in an article in the April 1959 number of "Kommunist", a "common line of economic and cultural development in the Socialist countries", close co-operation between them and finally, at some future time, a certain levelling of their standards of living. Superimposed on the thesis of the different paths to socialism is now that of the simultaneous access to Communism, which tallies perfectly with the desire for the unity of the Eastern bloc. The golden age of Communism is promised only in exchange for economic integration.

In the economic competition which the Soviet leaders have entered into with the eastern world, the European People's Democracies are a trump card in the Soviet hand. Any advantage gained by a planned economy is used as an additional propaganda argument. Moreover the production capacity of these countries combined with that of the Soviet Union, to facilitate both the economic expansion of the USSR itself and the granting of aid to the under-developed countries. Thus Eastern Germany is at present the best client and largest supplier of the USSR, while at the same time one of the main sources of the equipment sent on account of aid to the under-developed countries.

The close co-operation between the USSR and the People's Democracies established within the framework of the Council for Mutual Economic Aid, enables the Soviet leaders to use and direct the economic potential of these countries. Conversely, it has, over the last two years, laid a heavy financial burden on the USSR in the form of loans to nearly all the COMECON countries. At present it would seem that this organization has before it the choice between extending its present sphere of activities and strengthening the ties between its members.

When it was set up, the field of action of the Council for Mutual Economic Aid corresponded approximately to the geographical limits of the "Socialist Camp". Since then, however, the expansion of the Communist system in Asia has created a very different situation. A distinction seems to have become established between two types of People's Democracy - the European,

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(1) See, in particular, the article by IEDOSSEEV and POMELOV in "Kommunist" No. 5/1959.

which are grouped together within COMECON, and the Asian, which are represented on the latter by observers and are not official members. From certain indications given in Soviet reviews and more particularly in the Review "Philosophical Questions"<sup>(1)</sup>, it would appear that the Soviet theorists recognise and accept this distinction. According to them, the European Socialist countries united within a single economic council and, forming a well-defined economic area, are to reach the age of Communism together, while the Asian countries are to reach it at a later stage. KHRUSHCHEV's speech to the XXIst Congress definitely quashed this theory, since the First Secretary spoke of the simultaneous passage of all the countries in the "Socialist Camp" to the age of Communism.

This, however, seems to be a long-term programme and it is unlikely to include, at the present stage, the full participation of China and the Asian countries in the work of COMECON.

The attempt to achieve the harmonisation of plans and the international division of work within the Council for Mutual Economic Aid would be difficult to extend to countries at such different stages of economic development. It is to be expected that the collaboration of COMECON with the Chinese People's Republic will increase over the next few years. However, even if China were one day to become a member of the Council, there is likely to be a wide difference between the position of the European and the Asian People's Republics for some time to come.

Palais de Chaillot,  
Paris, XVIIe.

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(1) "Veprassy filosofii" - October 1958.

TABLE I

Per capita value of the foreign trade  
of certain COMECON countries in 1957<sup>(1)</sup>  
(Roubles - world prices)

USSR	166	HUNGARY	472
POLAND	312	BULGARIA	364
CZECHOSLOVAKIA	817	ROUMANIA	180
GERMAN DEMOCRATIC REPUBLIC	787		

(1) World Economy and International Relations No.  
4/1959

TABLE II

Share of machinery and capital goods  
in the exports and imports of COMECON  
member countries in 1950 and 1957  
(percentage)

	1950		1957	
	<u>Imports</u>	<u>Exports</u>	<u>Imports</u>	<u>Exports</u>
ALBANIA	30.9	-	39.3	-
BULGARIA	36.5	-	29.7	7.5
HUNGARY	20.8	22.5	12.7	38.5
GERMAN DEMOCRATIC REPUBLIC	5.5	28.0	7.1	43.8
POLAND	32.4	7.8	23.8	20.0
ROUMANIA	37.1	4.2	15.7	10.5
USSR	21.5	35.3	25.7	25.9
CZECHOSLOVAKIA	11.2	26.4	18.8	40.9

TABLE III

Share of the USSR in the imports of  
essential products of other COMECON  
member countries (percentage)

	<u>1950</u>	<u>1957</u>
Machinery and capital goods	28.6	26.5
Iron ore	65.0	74.7
Pig iron	68.1	84.0
Rolled steel and steel tubes	48.9	57.5
Non-ferrous metals	26.5	59.4
Oil	47.3	97.1
Petroleum products	62.6	58.6
Timber	12.7	53.1
Cotton	79.3	66.7
Grains	77.9	83.9