

CONSEIL DE L'ATLANTIQUE NORD
NORTH ATLANTIC COUNCIL

EF - 6.4.01(64)

EXEMPLAIRE N° 222
COPY

ENGLISH ONLY
22nd April, 1964

NATO CONFIDENTIAL
WORKING PAPER
AC/89-WP/107/5

SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

THE COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE (COMECON)

Note by the United Kingdom Delegation

THE XVth SESSION AND AFTER

The XVth Session of Comecon held in Moscow in June 1962 marked a significant change in the organization's rhythm of development. Faced with the prospect of Britain entering the Common Market several major organizational changes in Comecon were decided upon or proposed during and after the Session. Of these, perhaps the most immediately important was the setting up of an Executive Committee consisting of Deputy Prime Ministers of the member countries. This is now the highest executive body in Comecon and is subordinate only to the Council. Previously, important business could only be discussed at sessions of the Council, held once or twice a year, at the most. At present, most matters are examined by the Executive Committee, meeting about every two months. Nominally the Executive Committee "has extensive prerogatives for passing instructions to the member countries, and resolutions on organizational matters, and of directing the work of all the remaining organs of Comecon", but in fact it is not clear how far-reaching its powers really are. Shortly after its creation, the Czech Ambassador in Moscow is reported to have said that it would be empowered to veto proposals by individual countries to set up new industries, if these did not fit in with overall Comecon plans. On the other hand, Khrushchev (according to Ulbricht) said at the Comecon summit meeting in Moscow in July 1963 that "the inviolability of the national economies" would not be affected by the international division of labour and that the co-ordinating planning organs of Comecon could only make recommendations which did not become binding until the Governments concerned had consented. This statement was a marked retreat from the position enunciated by Khrushchev a year previously and represented a clear victory for the Rumanian point of view that at this stage national sovereignty should not be surrendered.

2. The Joint Planning Body "empowered to formulate common plans", which Khrushchev proposed at the CPSU Central Committee Plenum in November 1962 also seems to have fallen victim to the nationalist opposition stirred up by the Rumanians, despite the

NATO CONFIDENTIAL

Poles and the Czechs being on record as welcoming it. At present there exists only a Bureau for Joint Planning Questions subordinated to the Executive Committee. Its functions are obscure, but it appears to be concerned with the study of member countries' medium and long-term plans while these are being formulated by national planning bodies. The Bureau appears to have no more than advisory powers, and to judge by the infrequent published references, it carries little weight.

3. After negotiations lasting more than a year concrete steps were taken towards solving the financial problem. The IXth Session of the Executive Committee in Moscow during October 1963 produced a Multilateral Payments Agreement and an Agreement and a Statute for an International Bank of Economic Co-operation (in 1962 this was to be called a Bank of the Socialist Countries), both to come into being on the 1st January, 1964. Thereafter trade and other payments between the members will be effected in transferable (not convertible) roubles, and such operations will be channelled through the Bank. The Bank is empowered to finance and provide credit for building and construction but only from funds subscribed by member countries ad hoc, and also to operate accounts in transferable roubles with countries not parties to the Agreement (who may, incidentally, join the Bank provided that they share the aims and accept the obligations of the Agreement and Statute). The immediate practical effect of more new institutions will be limited by the provision that each member must balance its trade with the rest of the bloc annually and by the smallness of the initial capital fund of the Bank (300 million transferable roubles). But the new machinery, once it is functioning could lead to more efficient accounting and co-ordination of bloc internal trade policies, and ought to facilitate the co-ordination of bloc foreign trade and aid policies towards individual countries. The price basis of intra-bloc trade is to change from 1957-58 world prices to 1957-61 average world prices, also with effect from the 1st January, 1964.

PRACTICAL STEPS TOWARDS INTEGRATION

4. Probably the most significant progress towards economic integration of Eastern Europe has been in the field of fuel and energy requirements. Among the factors making for progress in this field are the fact that the East European countries, apart from the Soviet Union, are badly off for long-term fuel reserves; countries with significant fuel reserves (e.g. Poland) apparently feel that they cannot be expected to make the considerable investments needed to develop them without support from their fellows. The fourth meeting of the new Executive Committee accepted a tentative estimate of fuel and power requirements of the East European countries (apart from the Soviet Union) up to 1980 and decided to work this at a later stage into fuel and power estimates for the Comcon area as a whole. This, the first attempt to draw up a complex fuel balance embracing all aspects of fuel and power economy, is an important and far-reaching contribution to the co-ordination of economic plans.

5. Equally significant has been the progress in creating a unified energy system: the "Friendship" pipeline from the Volga-Urals oilfield, which by 1965 will supply the petro-chemical industries of Eastern Europe; and the electricity grid linking Czechoslovakia, Hungary, Poland, East Germany and the Soviet Union, which began functioning - somewhat inefficiently - at the beginning of 1963.

6. A number of agreements have been reported on specialisation of production by particular countries in various industries, notably engineering, chemicals and motor vehicles. Thus Poland and Czechoslovakia have significantly increased their machine tool exports, whereas those of East Germany have declined by a quarter since 1956. The number of machine tool types in each country has been cut. In diesel motor production, East Germany has become more important, Czechoslovakia less so. Poland and Rumania have come to the fore in production of railway rolling stock.

7. Joint investment arrangements negotiated ad hoc are a useful device enabling several Comecon countries to be associated with the exploitation of individual members' resources. There has recently been an increase in the number of multilateral projects supplementing the almost exclusively bilateral arrangements which have hitherto prevailed (e.g. the Polish-Czech agreements for sulphur and copper, and the Hungarian-Soviet agreement on aluminium). One such project is a scheme for the joint production of building board by Rumania (source of the raw material), Poland, Czechoslovakia and East Germany.

8. In December 1962 the Executive Committee approved an agreement to establish a joint European freight wagon pool, which is to come into operation on the 1st January, 1964. Under this agreement, twenty per cent of each country's railway wagons will be contributed to the pool. The USSR is to participate, in spite of technical difficulties due to the difference in gauges. The Rumanians joined - belatedly - in September 1963. The same Session of the Executive Committee agreed to set up an office for co-ordinating ocean freight shipping. Steps towards an integrated transport system are particularly important for East Germany whose communications network is still oriented towards the West.

9. Although their machinery for financing international trade is primitive, trade between Comecon has sizeably increased. From a low level in 1951 it had increased 3.5 times by 1961. The 1962 turnover in intra-bloc trade exceeded that of 1961 by fourteen per cent. At present seventy per cent of the members' trade is among themselves. These increases are a little less than the increase in internal trade recorded by the Six during the same period. The new financial arrangements described in paragraph 8 above may ultimately lead to the development of a common external policy.

ATTITUDES TOWARDS INTEGRATION

10. The motives for the increased interest in integration shown by the bloc countries fall into four categories:

Economic

11. Possibly the most compelling motive for some of the East European countries has been the realisation that their previous pursuit of autarky had placed an unacceptable strain on their economies, and was likely to stand in the way of further rapid expansion, which in modern conditions depends on investments which are often too great for a small country to undertake. They may well now be genuinely convinced of the economic advantages of an intra-bloc division of labour, which some of them, in the past, may have thought of as merely a Russian device for securing a stranglehold on their economies. The Poles have put this argument assiduously. The Warsaw Polityka of the 18th August, 1962, held that "in the economic circles of the Peoples' Democracies, an erroneous conviction existed until recently that an industrialised country is one where everything can and should be produced. This led to an increase in the cost of economic development". It went on to argue that economic growth in Eastern Europe could no longer be based, as hitherto, on a significant expansion of the labour force. Technological progress, productivity, effective investment, and increased trade were becoming the dominant factors. But because "the Peoples' Democracies" were rather small, the introduction of modern achievements in technological progress depended on the pooling of efforts leading to the economic integration of those countries.

12. Added to this was the possibility that the more industrialised (Northern) Satellites might make up for the deficiencies of their own agriculture by reliance on potentially abundant food-producers such as Bulgaria and Rumania. But agricultural co-operation among Comecon countries, while remaining a professed aim, has made little progress except in the field of technology, and both Rumania and Bulgaria still have wide scope for industrial development which they will not barter away for the dubious privilege of feeding others.

The Example of the Common Market

13. The example of successful integration in the West almost certainly increased the urgency of the bloc's own efforts to integrate. Many of the main stages in Comecon appear to be in direct answer to developments in the West. Thus the original creation of Comecon itself was partly in answer to the setting up of OEEC in 1948. Polityka admits that "when the Common Market of the six West European countries was founded in 1957, it was decided to give Comecon a formal legal status". The United Kingdom's application to join the EEC appeared to the more advanced countries as a threat to their economic interests, and it is probably no

coincidence that the Soviet propaganda campaign against the EEC opened in May 1962, just before Comecon was given its new impetus at the XVth Session of the Council. In his important article on Comecon in the September 1962 issue of the "World Marxist Review", Khrushchev emphasised that Western integration was an "objective trend" and said that the bloc must hasten its own integration if it was to win the economic struggle with the West in reasonable time. The relative importance of the Western example is, however, well summed up in Polityka: "It would be a mistake to claim that the present intensification of work (in) Comecon has been prompted by economic integration in the West. Certainly this factor is of importance. The basic reason lies in the internal needs of the economic development of the Comecon countries These needs coincide in part with those economic considerations which brought about the Common Market".

Ideological Considerations

14. Although the ideal of a world Socialist system without frontiers is beyond the realm of practical politics, the vision of the Marxist millenium presumably still strikes a chord in Communist emotions; even modest steps towards its achievement must be welcome to the ideologues. The maintenance of the bloc countries in separate autarkic units not only runs counter to this process, but contradicts the Marxist belief in the inevitable enlargement of productive units.

Political

15. Closer economic integration of the East European countries would help the Russians to achieve many of their political aims in Eastern Europe. Khrushchev no doubt welcomes the opportunity of consolidating the Soviet Union's control over Eastern Europe by economic methods which would be more unobtrusive, as well as more effective, than the crude political methods of Stalin. At the same time, it is a primary Soviet interest that the East European countries should be economically contented, so that they can play the role which the Russians have cast them in. The purely political advantages of integration for the Soviet Union's allies are far less obvious, except perhaps to strengthen their position against their professed fear of a revival of German expansionism in East Europe. The exception to this, of course, is East Germany, where Ulbricht's régime has a definite political interest in closer Comecon integration with the purpose of cutting links between East and West Germany and emphasising the former's separateness.

BASIC PROBLEMS AND OBSTACLES TO INTEGRATION

16. Progress towards further integration faces serious obstacles, both practical and political. These problems are as follows:

Financial

17. The bloc's multilateral financial machinery has hitherto been primitive in the extreme. The root of the trouble (as economists in Poland have pointed out) is that the system of basing domestic economic planning on the achievement of targets rather than on "profitability" makes it difficult to determine real domestic production costs. The pricing of products is arbitrary, and based on criteria which vary from country to country. It is therefore extremely difficult to decide whether it is more efficient (or "profitable") to produce a particular good in one country rather than another. Currency exchange rates are equally hard to determine, and so trade has tended to be limited to planned exchanges on the basis of bilateral clearing accounts.

18. These financial problems must be tackled before much progress can be made on the rational "division of labour" and the expansion of trade. Their significance appears to be much more widely recognised in the bloc than hitherto (witness the Liberman controversy on "profitability" in the USSR). But the measures so far taken by Comecon (paragraph 8 above) are not very far-reaching. Controversy continues between those experts who think that it is possible to construct an effective system of artificially calculated foreign trade prices, and those who think that trade prices must be tied to real production costs. The Statute of the new Bank also reflects an uneasy compromise between the Russian preference for a Bank confined to clearing activities and the Polish concept of a comparatively independent body empowered to grant credits for investment projects.

Practical

19. Among the practical obstacles to integration are the lack of common technical standards, and comparable statistical data; lack of a co-ordinated transport system; lack of a sufficient fuel base. Unlike the concepts of supra-nationality and "profitability", and the defects inherent in the centralised planning process itself, the solution of such practical problems require little preliminary adjustment of orthodox Marxist and nationalist attitudes, and is therefore likely to encounter less opposition from the traditionalists.

Nationalism and Conflicting National Interests

20. Nationalist feelings provide a focus for both the political and economic prejudices against integration which still persist in Eastern Europe. The populations of most East European countries still feel strong links with the West European tradition. Many of them despise the Russians, and often one another as well. The Bulgarians are perhaps the only East European people who preserve some affection and esteem for the Russians; but this is largely

because it was Russia which gave them independence and nationhood in the first place. All the East European countries would be very suspicious of anything which looks like a move to diminish their existing degree of national identity, with the possible exception of the East Germans for the reason set out in paragraph 20.

21. Apart from these wider considerations, not all the East European countries are convinced that a campaign to accelerate integration is in their national interest. Their fears are due in the first instance to their bad experience with Soviet economic domination after the war; they are also partly due to differences in the levels of economic development which they have achieved. Rumania has rejected proposals that she should limit the all-round development of her industry, including steel, in the interests of intra-bloc specialisation; many Czechs and Hungarians appear to fear that they will have to give up valuable industries in the interests of "specialisation", and that their living standards will be levelled down to help raise the standards of the poorer countries. The Bulgarians appear to regard economic integration without inhibitions - chiefly because, as the least developed members (apart from Outer Mongolia), they can hope to get more out of Comecon than they put in. But even the Bulgarians would object strongly if Comecon attempted to rationalise out of existence some of their pet heavy industrial projects. And even if the Governments are convinced of the need for integration, they may encounter serious resistance from subordinate officials and managers of enterprises which may obstruct moves towards integration in the belief that they are defending their country's real interests. Articles in the East European Press show that the authorities are aware of, and concerned at, these nationalistic manifestations.

22. All these fears are no doubt fed by the thought that the Soviet Union, if only because of its immense economic preponderance, is bound to dominate an East European economic community. This consideration is behind the ideas expressed by some Poles that integration should first proceed amongst the smaller East European countries alone, until they can face the USSR on equal terms.

Ideology

23. There are also certain doctrinal considerations which may militate against the rapid achievement of integration. Thus in their dispute with the Russians, the Rumanians have made some play with the argument that Marxist-Leninist orthodoxy demands the creation of heavy (especially metallurgical) industry as a prerequisite for Communism. A more significant ideological barrier is the Marxist repugnance for the profit motive, the market mechanism, and other bourgeois devices for securing the smooth exchange of goods and the rational allocation of resources. In recent years, however, the Russians and their East European allies have shown an increasing ability to re-interpret ideology when it conflicts with practical considerations. The ideological obstacles to integration may therefore disappear more rapidly than some others.

Comecon as a Closed Society

24. Even successful integration within Comecon would have its political drawbacks for the Russians. Its members regularly proclaim that Comecon, unlike the EEC, is a society open to all comers. But the prospects of successful integration would be seriously damaged by the introduction of non-European countries at different stages of development. Practical steps (as opposed to propagandist claims) towards a dilution of membership may therefore be ruled out for the foreseeable future. But this could increasingly provide the Soviet Union's ill-wishers - especially the Chinese - with tempting opportunities for demonstrating that the East European Communists have ranged themselves with the "haves" against the vast majority of the coloured "have-nots". Adverse effects on Communist opinion elsewhere or on the standing of the Soviet Union in the under-developed countries might be mitigated if the successes of Comecon could be shown to result in increased aid for the under-developed countries, and if it could be shown that in absolute forms trade between Comecon members and outsiders increased, even though relative to internal trade it decreased.

CONCLUSIONS

25. Integration in the West has been proceeding for many years at various levels. Agreements between individual firms, the workings of the market, and the normal processes of international trade have brought about some international division of labour even without governmental intervention. The conscious attempts by the Governments of the Six to bring about the economic integration of Western Europe have thus had a ready-made foundation on which to build. Such semi-automatic processes are not to hand in the planned economies of Eastern Europe, where practically all moves towards integration have, from the very beginning, to be taken consciously and deliberately by the central authorities of the countries involved, and carried out by officials who may lack both skill and experience to handle the enormous administrative complications smoothly. Technical and institutional problems, political inhibitions, and the clash of national and sectional interests, constitute formidable obstacles. Each new development will be accompanied by hard bargaining, to ensure that national interests are not sacrificed unfairly. Outside factors and preoccupations - the problems that the Soviet Union is facing in reorganizing its own internal economic affairs, the decreased sense of an urgent need to catch up with the West since the British application to join the EEC failed - may mean that the pressure to move forward will fluctuate in strength. Practical advance towards integration will therefore be patchy and slow in many sectors.

26. Nevertheless, genuine progress is being made towards the creation of the physical foundations of integration, especially in transport and energy. These developments, while increasing the

DECLASSIFIED - PUBLIC DISCLOSURE / DECLASSIFIE - MISE EN LECTURE PUBLIQUE

inter-dependence of the East European countries among themselves and with the Soviet Union, will bring material benefits and may spontaneously generate pressure for further integration in other fields. Perhaps the most significant change of all is that the East European leaders have now come to a much clearer realisation of the basic problems of integrating centrally planned economies, and are apparently more willing than before to shed Marxist preconceptions if they interfere with the pragmatic solution of practical difficulties. Thus considerable expert study is at last being given to the financial problems, whose solution would represent a major break-through. It would therefore be wrong to assume that Comecon will continue as unspectacularly as in the past. The greatest obstacle to be overcome is undoubtedly the nationalism of the Satelites and the likelihood that they would resist as best they could any move towards integration, especially the creation of supra-national bodies, which might lead to encroachments on their sovereignty. The intensification of the Sino-Soviet dispute, as the Rumanians have been quick to recognise, has provided individual East European countries with a means of applying some pressure on the Soviet Union to recognise their economic aspirations.

OTAN/NATO,
Paris, XVIe.