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ECONOMIC REVIEW OF INDIVIDUAL EASTERN EUROPEAN COUNTRIES

HUNGARY

Note by the Chairman of the Committee of Economic Advisers

The fifth examining session on economic developments in individual Eastern European countries (1), held on 24th May, 1965, was devoted to Hungary. The debate was based on a report prepared by the United Kingdom Delegation (2) and introduced by the First Secretary at the United Kingdom Embassy in Budapest, a member of the Defence Intelligence Staff and a representative of the Board of Trade. The meeting was attended by the Deputy Chief of Mission of the United States Embassy in Budapest, as well as high officials from the United States, the Federal Republic of Germany and France.

2. The Committee of Economic Advisers felt that the Council might be interested in the result of their review. It has attempted, in the attached summary report, to survey the present economic situation in Hungary, to assess future trends, in particular as regards external trade, and to arrive at a certain number of conclusions.

(Signed) A. VINCENT  
(Acting Chairman)

OTAN/NATO  
Paris, XVIème

- (1) The following countries have so far been examined: Roumania on 6th November, 1964 - see C-M(65)18; Czechoslovakia on 11th February, 1965 see C-M(65)41; Poland on 25th February, 1965 - see C-M(65)42; and the Soviet-occupied Zone of Germany on 29th April, 1965.
- (2) See AC/89-WP/158 and Comments by the German and United States Delegations; for a record of the examining session see AC/89-D/47.

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ECONOMIC REVIEW OF INDIVIDUAL EASTERN EUROPEAN COUNTRIES

HUNGARY

Report by the Committee of Economic Advisers

A. INTERNAL ECONOMIC SITUATION

Hungary is one of the smallest among the Eastern European Communist countries (93,000 sq.km.); it is completely landlocked. The population of 10.1 million is the smallest except for Bulgaria and Albania. Though endowed with large bauxite deposits and rich agricultural soil, the country is poor in natural resources. With a per capita GNP somewhat higher than that of Poland, but considerably below that of the Soviet occupied Zone of Germany and Czechoslovakia, Hungary is a semi-industrialized country where agriculture still plays a major rôle.

2. The Kadar régime, installed by the Soviet Union after the 1956 Revolution, has succeeded in providing a certain economic stability and in winning the co-operation of a large part of the population, mainly owing to the success of Kadar's policy of reconciliation and the régime's acceptance of the need to improve conditions and erase the memory of the Stalinist régime led by Rakosi. The population is easygoing and more interested in material welfare than in Marxist theory; it seems to live better than that of richer countries such as Czechoslovakia. Though Kadar seems to have managed to emancipate himself somewhat from the grip of the Soviet Union, Hungary remains very dependent economically and politically on the USSR which still has 50,000 troops in the country.

3. During the last few years, industrial production has risen at the comparatively high average annual rate of 8.5%, i.e. at about the same rate as in Poland and in the Soviet Union, but more slowly than in the less-developed Eastern European countries, Roumania and Bulgaria. However, future targets are much lower (4.5% in 1965) as the régime seems to put the stress on quality and efficiency of production rather than on mere quantity. Such a policy requires, however, among other things, investment in new technology, a less bureaucratic management and skilled labour which is likely to be in increasingly short supply. The Hungarian Government has recognized this, and has been experimenting cautiously with new managerial reforms which are, however, less far-reaching than in the more industrialized Communist countries of the region.

4. Although the share of agriculture in total investments is much higher than in other countries of the region, and in some Western countries at a comparable level of development, agricultural output has made slow progress. While small private farms and the plots of collective farmers only cover 16% of the arable land, they account for 25% of agricultural production. As the

latter, especially livestock breeding, is of the utmost importance as an earner of hard currency, the régime has recently altered its hostile attitude towards the ownership of private plots by collective farmers; it has also introduced a number of incentive schemes. These usually involve some sort of share cropping, the farmers being rewarded in accordance with the results achieved on the particular collectivized land on which they are working.

B. FOREIGN ECONOMIC RELATIONS

5. Owing to its lack of natural resources, and small home market, Hungary is heavily dependent on foreign trade; after Bulgaria, it has the highest share of imports in the Gross National Product (13.4%) of any Eastern European country. Hungarian foreign trade rose from \$1.2 billion in 1955 to \$2.8 billion in 1964. This is equivalent to an annual average rate of 11%, a record matched only by Roumania and Bulgaria in recent years. The share of Communist countries in Hungary's trade has remained at close to 70% during the last 5 years, whereas that of the Soviet Union has grown from 30% to 34% and that of NATO countries from 12.8% to 15.3% by 1963.

6. Hungary depends on the Soviet Union and Eastern Europe for supplies of nearly all raw materials. The exception is bauxite, of which about half Hungary's production is exported to Eastern Europe. There is also a long-term agreement for the export to the USSR of increasing quantities of alumina for processing. Though Hungary is disappointed at the progress of the division of labour within COMECON, a principle to which, because of its need to specialize, the country is very wedded; it is a faithful member of this organization. Hungary is linked to the COMECON pipeline, electric power grid, and wagon pool, as well as to the newly established organization INTERMETALL, a kind of steel community with its headquarters in Budapest.

7. Hungary's trade with the non-Communist world has developed less rapidly than its overall trade, but trade with NATO countries alone has grown faster than trade with all other regions, including the Soviet Union. The greatest obstacle to a further expansion arises from the difficulties encountered by Hungary in increasing its exports. In its trade with NATO countries, Hungary has accumulated a trade deficit of \$175 million during 1959-1964 which is continuously increasing. To settle this deficit, Hungary will have to expand considerably its exports, a problem recognized by the Government which is taking steps to promote the export of manufactured goods to the West.

8. The prospects of an expansion of Hungary's trade with the West do not seem to be too favourable for several reasons :

- the country's heavy dependence on the Soviet Union and other Communist countries as suppliers of raw materials and markets for its manufactured products;

- the fact that 60% of Hungary's exports to Western industrialized countries are composed of agricultural products, a market that is being made more difficult to enter by the new arrangements of the EEC;
- the fact that many of the manufactures which Hungary does attempt to sell in Western markets are uncompetitive on quality grounds;
- Hungary's limited capacity to ensure the servicing and repayment of credits, given the heavy deficit in the balance of payments;
- the problem for Hungary to obtain a reduction of quantitative and tariff restrictions to its exports, owing to the difficulty for a country with a state trading system to offer corresponding benefits to its Western trading partners.

9. Nevertheless, the Hungarian Government seems to be genuinely interested in an expansion of its trade with the West. Among the means considered to this end are:

- an increase in exports of agricultural products, principally through a system of bartering live cattle against Western fodder and fertilizers;
- a rise in the technical standard of its manufactured goods to be achieved by sending students and technical commissions to Western countries; the recent acceptance of 60 Scholarships offered by the Ford Foundation deserves to be mentioned here;
- co-operation with Western companies for joint production, a project also studied by the Polish, Roumanian, Bulgarian and Czech Governments, the main problem still to be solved being that of joint management.

### C. CONCLUSIONS

10. As in the case of other Eastern European countries such as Poland, the situation in Hungary seems to be somewhat fluid. In recent years the economy has made steady progress, but some slowing down of the rate of growth is now expected. The régime has introduced a more moderate line in its agricultural policy, and is cautiously experimenting on new forms of industrial administration and management.

11. The Committee can only offer very tentative conclusions as to the possibilities for NATO countries of loosening the ties between Hungary and the Soviet Union by increasing trade :

- though highly dependent on the Soviet Union and Eastern Europe as suppliers of fuel, raw materials, electric energy and military equipment, Hungary, in order to modernize its industry, wishes to avail itself of all the advantages which trade exchanges with the West provide; it seems prepared to study new forms of co-operation with Western firms and to send students and technicians to the West to study technical progress; Hungary's efforts in this direction may be stimulated by its disappointment with the slow progress of COMECON in promoting the division of labour within the Communist group of countries. However, Hungary is careful not to run the risk of possible Soviet counter-measures, the memory of which is still alive in the country;
  
- though chances of dissociating Hungary from the Soviet Union are not very great in the near future, owing partly to the presence of Soviet troops in the country, longer-term prospects are less discouraging and the West should continue, in particular through closer economic relations, to help Hungary in asserting its own national interests; Western countries should take such steps as they feel appropriate with a view to expanding trade with Hungary, in particular facilitating the access of Hungarian products to Western markets without damaging the legitimate commercial interests of other countries, especially those of the free world which are still in the course of development; the setting up of joint enterprises, the extension of scholarships and other forms of technical assistance should be encouraged; the possibility of establishing relations between Hungary and such international organizations as GATT and the EEC should also be explored. Western countries should maintain an economic policy flexible enough to be able to take advantage of the opportunities that developments in Hungarian foreign economic relations might offer and for this purpose should follow closely such developments.