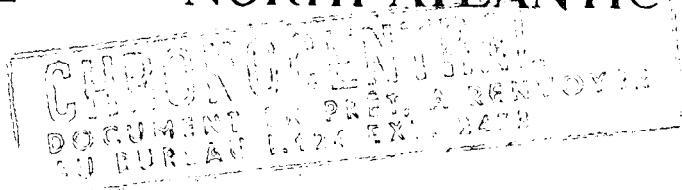


CONSEIL DE L'ATLANTIQUE NORD  
NORTH ATLANTIC COUNCIL



EXEMPLAIRE N° 298  
COPY

N A T O R E S T R I C T E D

ORIGINAL: ENGLISH  
5th November, 1974

ACTION SHEET  
C-M(74)60

COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE

SIGNIFICANT FEATURES AND TRENDS

Action Sheet

At its meeting on 15th October, 1974, the Council took note, by the silence procedure, of the report in document C-M(74)60.

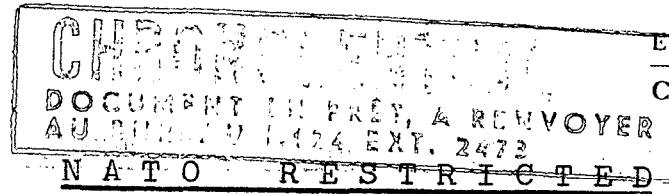
(Signed) G. SEKERIS  
Executive Secretary

- Notes:
- (1) This action sheet is part of, and shall be attached to, document C-M(74)60 as the top sheet
  - (2) This action sheet may be considered as "Unclassified" when separated from the document to which it refers

N A T O R E S T R I C T E D

b.l.

CONSEIL DE L'ATLANTIQUE NORD  
NORTH ATLANTIC COUNCIL



EXEMPLAIRE

COPY

N°

303

ORIGINAL: ENGLISH  
20th September, 1974

DOCUMENT  
C-M(74)60

COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE

SIGNIFICANT FEATURES AND TRENDS

Note by the Chairman of the Economic Committee

The Economic Committee, assisted by experts from capitals, examined the current situation and trend in COMECON affairs, on the basis of various national contributions. The attached paper does not aim to summarize all the information supplied. It calls attention to certain basic features of COMECON and to issues which might interest the Council in its appreciation of developments in the Warsaw Pact area.

2. The Council is invited to take note of this report.

(Signed) Y. LAULAN

NATO,  
1110 Brussels.

This document includes: 1 Annex

N A T O R E S T R I C T E D

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THE COUNCIL OF MUTUAL ECONOMIC AID(1)

Report by the Economic Committee

SUMMARY AND CONCLUSIONS

1. Experience shows that Soviet leaders have consistently sought, with varying success, to use COMECON as an instrument of general policy. Their ability to manipulate the organization is based partly on their own military and economic strength and their ideological influence and partly on the divergence of interests among the other members.
2. Soviet interest in the purely economic possibilities of COMECON is smaller than that of the East European countries for which economic co-operation is a matter of great importance. The Soviets, however, are very concerned with the political consequences of economic arrangements within COMECON.
3. The present phase of COMECON development should be seen as part of the scenario of détente in Europe. Parallel with Soviet willingness to negotiate with the West is a determination to consolidate its hold over Eastern Europe. Soviet insistence on that part of the COMECON Comprehensive Plan which would institutionalize the distinction between the "Socialist" system and the rest of the world to the detriment of that element of the programme which sought to attenuate differences is really the economic aspect of the Soviet overall design which goes under the name of the Brezhnev doctrine.
4. In the past Soviet ability to use economic strength as an instrument of policy was limited; in 1968 resort to military measures was necessary to bring Czechoslovakia into line. Recent economic trends have been to the advantage of the Soviet Union. The possession of ample energy and other raw material resources at a time when the world at large is conscious of a growing shortage of these things has greatly strengthened the Soviet economic position vis-à-vis the other members and reinforced its rôle as undoubted leader of the East.
5. Recent events have also redounded to the benefit of the Soviet Union in the ideological field. Over many years the contrast between the obvious structural defects of the Eastern economies and the striking successes of the more flexible market economies created pressure for economic reform in the East. Now, however, inflation and the associated social difficulties in Western countries have provided the Soviets with fresh arguments in favour of their system and seriously weakened the position of the Eastern reformers.

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(1) Known as CMEA, CEMA or COMECON

SIGNIFICANT FEATURES AND CURRENT TRENDS

I. COMECON - A GEOGRAPHICAL AREA AND AN INSTITUTION

6. COMECON(1) can be considered both as an institution and an economic area. Parallels with Western areas and institutions suggest themselves, but are somewhat misleading. Just as the Soviet constitution is a very imperfect guide to conditions in the USSR, so declarations in COMECON documents are only an imperfect reflection of reality.

7. The changes in the geographical composition of COMECON over its twenty-five years of history illustrate rather well its use as a general instrument of Soviet policy. In the fifties it comprised the USSR and all the states in Eastern Europe which had come under Soviet control. In the early sixties, as the result of the Soviet quarrel with China, Albania was squeezed out and Mongolia brought in. Yugoslavia became an associate in 1964, while in 1973 Cuba was enrolled as a full member. At the moment it looks as though special arrangements might be contemplated for other Latin American countries.

8. The institutional aspect of COMECON has always been rather vague, and even today there is some doubt about its exact status in international law. The reality behind the façade has been the degree of agreement between the political leaders or the level of their acquiescence in Soviet wishes. Very often this agreement is expressed in a bilateral treaty. Thus, in the early days when COMECON was a framework for the fostering of intra-bloc trade, it was through bilateral treaties that preference was given to trade between partners at the expense of trade with the Western world.

9. Since the mid-fifties the institutional aspect of COMECON has grown. A charter was written and a large variety of institutions were created. Many of these have been somewhat formal, concerned largely with the spreading of information between governments, but in recent years more business-like bodies have been set up, involving relations between enterprises or institutions, some of which, in the domain of armaments and electronics for instance, appear to have a certain policy-making function. A certain co-ordination in the financial sphere was aimed at by the creation of the COMECON banks, the International Bank for Economic Co-operation (1964) and the International Investment Bank (1971).

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(1) See Annex for outline of history and structure

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10. Reading the charter one could conclude that it guarantees very adequately a member's sovereignty and that, as long as it remains unchanged, integration cannot go beyond what the members accept. Juridically this may be so, indeed the USSR may have as much reason to reject being bound by COMECON as any other member, but the realities of the situation will be decided by the conviction, the force of argument, the relative political, economic and military influence exerted by members in council.

## II. COMECON INTEGRATION

11. For a long time the word "integration" was unacceptable in COMECON circles as being a capitalist phenomenon or inconsistent with the charter. About five years ago, however, it was given a socialist definition and it has now replaced "co-operation" as the natural corollary of "specialization". In actual fact integration should perhaps be defined as the mutual dependence of enterprises, regions, countries which arises as the result of the division of labour between these units and the subsequent exchange of specialized production.

12. Industrial specialization is typical of all economically developed countries and its significance increases where the optimum scale of production rises relative to the size of the internal market. Small but advanced countries such as the GDR and Czechoslovakia find that they can only accommodate a limited number of industrial processes efficiently. The problem so far, is much less acute in less developed countries such as Rumania, while large, populous countries, like the USSR and the USA, can afford to retain the whole range of industrial activities. They may still choose to import certain foreign manufactured specialities which they could make themselves, but whereas the question of industrial specialization is vital in the case of smaller countries, for these very large ones it is marginal.

13. In the market economies, where economic decisions are strongly influenced by market prices based on production costs and on current demand, the specialization pattern is largely commercial, that is, the particular enterprise, region or country tends to concentrate on those activities in which it has a comparative advantage. In the COMECON area the position is rather different. Prices, fixed by planners for their own purposes, do not necessarily reflect cost and demand. In making decisions affecting enterprises or regions within a country the local planners will presumably take into account their own estimates of costs but as between countries, where the prices structures are not comparable, decisions are reached as the result of administrative considerations and country to country bargaining.

14. Integration or the mutual dependence resulting from the linking up of economic activities in contiguous areas tends to create a federation of equal regions or the economic absorption of the smaller by the larger. In the COMECON area where the political authorities are particularly keen on assuming responsibility for economic affairs economic integration could hardly fail to have far-reaching political consequences.

III. CURRENT TRENDS

(a) Impact on COMECON of recent events on Western markets

15. Although to some extent COMECON, as a distinct socialist system, is insulated from trends in the outside world, it is in practice not possible to eliminate altogether repercussions of phenomena affecting the world market such as inflation and the energy crisis.

(i) Monetary influences

16. COMECON countries have always suffered from their own form of inflation in the sense that current demand exceeds supply. There is a good deal of excess purchasing power in COMECON countries but since, among other things, prices are not free to rise, the internal economic problems are not the same as those associated with inflation in the West. It should be added that were economic reforms including a flexible price system really carried out in Eastern Europe, the influence of world trends would be considerable.

17. Since COMECON trade with the West is effected in Western currencies and at Western prices, inflation on Western markets has meant that both import and export prices have risen, not necessarily to the same extent. The trade balance is thus directly affected by the inflationary trend.

18. Beyond this, however, there is the problem that intra-COMECON trade prices are themselves based on Western market prices. These tend to be fixed at the beginning of the planning period, so that a complete overhaul of COMECON foreign trade prices may be necessary in 1975. Should Western market prices settle down by that time, no particular problem need arise after the one-time adjustment but should the outlook be for a continued rise, COMECON countries might be faced with the need to consider either a yearly review of prices or even a new system altogether. In the past there have been advocates of a specific COMECON price system, based presumably on a new Soviet system. Continued inflation on Western markets would provide ammunition for this school of thought.

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(ii) The Energy Crisis

19. The immediate effects of the energy crisis on COMECON countries have been slight. The East European countries are net importers of energy and the Soviet Union supplies the overwhelming bulk of this, at prices laid down at the beginning of the present planning period 1971-1975. The USSR could reasonably insist on a very different pattern of prices as from 1976. The East European countries would also, no doubt, increase the price of their exports, but on balance the terms of trade would turn against them. It was probably in anticipation of something of the sort that East European governments called the attention of the public to the energy crisis last autumn.

20. Throughout Eastern Europe as elsewhere there has been a steady shift from coal consumption to that of oil and gas and it is possible that this trend may be halted. Indeed decisions taken at the recent COMECON summit meeting in Sofia (June 1974) imply that in future stress will be put on natural gas and electricity, partly generated with nuclear fuel. Nevertheless, oil supplies are likely to remain a problem for these countries in the near future. If the Soviets continue to meet the bulk of East European requirements, and deny themselves the extra revenues they could get in the West, they might well insist on further East European commitment to COMECON in one form or another. If, on the other hand, they were to persuade the East Europeans to look elsewhere for large supplies of oil, they would have to agree to the allocation of considerable East European output to pay for this. On balance it seems, at this juncture, that the Soviets will opt for the political advantage of keeping the East Europeans bound to themselves by trade.

(b) Implementing the Comprehensive Programme

21. A new phase in the history of COMECON, started in the wake of events in Czechoslovakia in 1968, is associated largely with the "Comprehensive Programme", accepted in 1971 after two years of discussion of all aspects of economic activity and co-operation. There had been two distinct approaches to the idea of co-operation and integration. On the one hand, the Soviets and some others maintained that common or co-ordinated planning was the natural "socialist" way to promote integration in the socialist countries, whereas the Poles and the Hungarians had argued that specialization and integration would evolve more naturally if the East European countries introduced rational price systems and made their currencies convertible at least among themselves. The programme, as adopted, obscures the issue by including all the ideas put forward, though not on an equal footing. The Poles were reported to have been very disappointed at the outcome of discussions, which in practice was a victory for the planners.

22. Subsequently a great deal of attention and publicity has been given to the question of co-operation in planning and in arranging projects in common. Already in 1970 a measure of plan co-ordination was achieved in that the publication of the East European Five-Year-Plans (1971-1975) was deferred until the Soviet trade requirements were written in. The degree of plan co-operation in respect of 1976-1980 will certainly be greater. The announcement of the formation of an "International Planning Agency" in 1975, headed by Baybakov, the chief Soviet planner, looks very significant indeed.

23. The financial reforms mentioned in the Comprehensive Programme remain at the stage of discussion. The introduction of coherent price systems in COMECON countries and the acceptance of currency convertibility would be a major reform implying an upgrading of the rôle of money and some limitation of planners' prerogatives. In view of political implications of such a reform it is understandable that little progress has been made. For their part the Soviets have indicated that they attach ideological priority to the concept of co-ordinated planning and that financial measures may follow once the major objectives of integration have been achieved. It has moreover been pointed out in Soviet publications that preoccupation with financial reform is the characteristic of those who wish to introduce market elements into the system or even change the political character of socialism.

24. Despite what seems to be the considerable success by the Soviets in realizing their aims within COMECON, it seems likely that most if not all East European countries will persist in trying to defend what remains of their economic sovereignty and some of them may continue to press for reform of prices and currencies.

25. The outcome of all this is still uncertain but there is no doubt that the power of persuasion of the USSR has greatly increased. Five years ago it was necessary to resort to the military instrument to discipline a recalcitrant ally, economic measures against Czechoslovakia would not have been effective. Recently, however, Soviet influence in the economic sphere has been greatly enhanced in two ways:

- (i) The effect of the energy crisis and of the rise in the prices of gold and raw materials has been to improve the Soviet terms of trade thus giving the leaders the option of earning more convertible currency in the West or being able to exert more pressure on Eastern Europe.



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- (ii) Secondly there is inflation in the West. In the post-war period the non-appearance of massive depression was a serious disappointment to Soviet ideologues who had counted heavily on this particular "contradiction of capitalism" to justify the system they had adopted and imposed on Eastern Europe. They have taken keen interest in the strike movement, but this is an issue that has to be handled with care. Western inflation however is a real windfall. To those who teach that capitalism germinates the seeds of its own destruction, it must be satisfactory to note that Western leaders, while belatedly admitting that inflation threatens the very fabric of society, are apparently unable to control the forces they have unleashed. Great attention is being given in the Soviet media to the unfolding of this drama, which, it is hoped, will also serve as a warning to those reformers in Eastern Europe who were misguided enough to want to replace "socialist" planning with market techniques.

26. Among the issues mentioned in reports on proceedings of the 28th COMECON session in Sofia in June, the following seems to be the most important:

- (i) Further progress is claimed to have been made in planning the integration of the COMECON economies in so far as several countries have now incorporated in their national plans sections dealing specifically with questions of specialization and integration.
- (ii) In addition to the many multilateral agreements on co-operation in science and technology already signed - 27 according to Fadayev, the Secretary General of the organization - mention is now made of a COMECON agreement on standardization, apparently, however, not signed by Rumania, which would imply a new stage in technical and industrial relations between member countries.
- (iii) The trend towards common projects has gathered force. Already by the end of the sixties several joint schemes were in operation, including such projects as the "Friendship" pipeline and the "Peace" powergrid. In the last few years, along with the Bank for International Investment, many new projects

have been launched, the most important of which concern the participation of East European countries in the development of Soviet resources(1). Special stress is being laid on the need to co-ordinate plans for the supply of energy. The ability to exploit and deliver various forms of energy is a strong card in the hands of the Soviets. At the present time they may be reluctant to commit themselves to increasing, to any large extent, their deliveries of oil to Eastern Europe, but by offering natural gas, electricity and equipment for nuclear-fired power stations they can hope to retain or reinforce their hold over the economies of Eastern Europe.

(c) Development of East-West trade

27. In recent years there has been a decided rise in the trade of COMECON countries with the West absolutely in relation to total trade. This is partly due to the rise in prices, but there has also been a rise in volume. The Soviet Union has itself wished to step up its trade with the West, and this implies that the other COMECON members should be allowed to do likewise. It is not clear how far this new trend will go. In an effort to improve trade relations with the West, several East European countries (Poland, Rumania, Czechoslovakia and Hungary) are participating in GATT as full members, and Rumania has even joined the IMF.

(d) COMECON and the EEC

28. Some Western observers see a parallel between the EEC and COMECON. In fact the organizations are very different, both juridically and in practical terms. The European Community is the creation of a number of West European nations which sought by means of economic union to achieve a form of political union, COMECON, on the other hand, serves effectively to perpetuate the effects of Soviet military occupation of the area in 1945 and to curb any independent initiatives on the part of the East

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(1) Among these are: an iron and steel plant at Kursk, an asbestos plant in the Urals, the Ust Ulim paper and pulp scheme, a project to pipe natural gas from Orenburg. Other projects cover the transmission of electric power from the Ukraine to Hungary, the development of energy or mineral resources in Poland and Bulgaria, and of nickel in Cuba

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European nations. If COMECON consisted merely of the six East European countries without the USSR, there might be some point in a comparison with the EEC. In fact, however, the Soviet Union, which has very little interest in forging specialization links with its neighbours, completely overshadows them in size of population, extent of territory, economic potential, military power and political ambition.

29. In the days when the USSR was less confident than now of its hold over Eastern Europe, it was distinctly hostile to the EEC, apparently fearing that the Community might act as a pole of attraction for some East Europeans. More recently the USSR has changed its attitude and has raised the question of direct links between COMECON and the Community. The East European members are not enthusiastic about this. They much prefer to maintain bilateral links with particular countries. It is not so much however that they object to dealing direct with the Community, they simply do not wish the Moscow dominated COMECON to speak for them.

#### IV. DIVERGING INTERESTS AND ATTITUDES WITHIN COMECON

30. The interests of COMECON members diverge considerably. First, there is the difference between the Soviet Union and the East Europeans and secondly there is divergence of interests between the latter.

##### (a) The USSR

31. As already indicated the USSR's main interest in COMECON is political since it has no real need to limit its industrial activity to certain specialities. The organization serves as a convenient instrument of control of Eastern Europe in the economic sphere just as the Warsaw Pact does on the military side, although bilateral treaties would in the last resort achieve the same purpose of control in both respects. On the ideological level COMECON serves to some extent to bolster Soviet leadership among the "socialist" countries in so far as economic solutions which happen to suit the USSR (such as planning) can be presented as essentially "socialist" ones. Finally, there appears to be a tendency to use COMECON to further Soviet policies beyond the "socialist" area, that is, in relations with the developing countries.

32. Naturally enough the Soviet Union is also anxious to derive economic advantage from COMECON. In the Stalin period the satellites were exploited economically but in recent years there has been little evidence of this sort of thing. In the sixties some pressure was put on the East Europeans to invest in Soviet raw materials and energy but the reluctance of some

countries to do this may have been due more to political than economic reasons. Indeed, it could be said that in some cases the Soviets are prepared to pay an economic price to achieve a political gain. The sale of oil and raw materials to Eastern Europe is an example of this. In purely commercial terms it would surely pay them to sell more of their oil, ores, etc., to the West rather than to their COMECON partners, but in order to retain the trade link with these countries the Soviets prefer to continue to supply the bulk of their requirements in basic commodities.

(b) The East Europeans

33. The leaders of the East European states have this in common that being closely circumscribed politically they are all the more inclined to find an outlet for their nations' influence and weight in the economic sphere over which they still retain a good measure of control. This is why some of them have tried, with varying degrees of success, to undertake economic reform. The Stalin economic model was even more harmful to economic development in Eastern Europe than it was in the Soviet Union where the priority system at least promoted the rise of industry and the defence sector, both of which might be considered in the national interest.

34. On the other hand there are important differences - in the degree of economic development, the ethnic and the demographic situation and the popular attitude to the Soviet Union and to each other while the freedom of manoeuvre enjoyed by the leaders varies not only from country to country but also from time to time. Thus what seemed to be a feasible economic policy in CSSR in spring 1968 was no longer so in the autumn of the same year; economic policies proposed by Ulbricht were dropped under his successor; it was possible for Gierak after Danzig to advance policies which Gomulka would not have risked suggesting before then.

35. For one reason or another the East Europeans only rarely present a common front to the Soviets. This was apparently the case in the early sixties on the issue of foreign trade prices, and there is no doubt a common determination to retain as much economic sovereignty as possible.

36. The differences in outlook and interest among the East European countries seem striking. The Bulgarians, the most willing to follow the Soviet line, appear to be reasonably satisfied with things. It was not always so; in the early sixties they, like the Rumanians, took exception to the COMECON plan, subsequently abandoned, that the two Balkan countries

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should concentrate largely on agricultural production. Now, partly as the result of the massive credits they received, especially from the USSR, they now enjoy a higher living standard than their benefactors. The Rumanians on the other hand have received relatively little help and less sympathy from their COMECON brethren.

37. The Poles may feel that with patience and endeavour they will emerge as the greatest nation in the area - after the Soviet Union - while the Hungarians appear to be hoping to improve their position by quietly and steadily reforming their economic system and building up their trade.

38. Czechoslovakia and East Germany, the two most developed states in the area, have so far benefited little from the COMECON connection. Czechoslovakia has been hampered economically by the loss of the skills and experience of the Sudetan Germans, by the rivalry between Czechs and Slovaks and by inability, owing to political circumstances, to choose a pattern of industry and foreign trade really adapted to the circumstances of the country.

39. The GDR at first exploited then favoured by the Soviet Union, has built up the strongest economy in the area, but it is under great pressure to direct its trade towards the USSR and above all to keep relations with the Federal Republic at an unnaturally low level.

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COMECON HISTORY AND STRUCTURE

A. Historical Outline

1. The COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE was founded in January 1949 - the first meeting of the USSR and its associates at the state level. The original members were the USSR, Bulgaria, Czechoslovakia, Hungary, Poland and Rumania. Albania joined the following month, the GDR in September 1950.

2. Four phases in COMECON history may be distinguished:

(a) The Stalin Period (1949-54)

From its foundation until shortly after Stalin's death COMECON was practically dormant. The Soviet Union exerted its influence bilaterally and all members accepted a Soviet type economic structure and policy.

(b) The Khrushchev Period (1954-63)

This active phase of COMECON is associated with Khrushchev's adventurous policies. Already in 1954 the practice of self-sufficiency for the smaller states of Eastern Europe was recognized as uneconomic and the idea of a socialist commonwealth was mooted. In 1956 the creation of COMECON institutions began in the form of 12 standing commissions - afterwards increased to 20 - and in 1959 the Statute was approved. In the early sixties Khrushchev sought to use COMECON as a front both against the Common Market and China. In this connection the Albanians left COMECON in 1961, and Mongolia was brought in in 1962. In order to make the organization more effective, an Executive Committee was set up in 1962, and a set of principles was proposed. Khrushchev's attempt to create a single planning organ for all members provoked the open resistance of Rumania and no doubt the tacit opposition of others.

(c) The Quiet Period (1963-68)

Early in 1963 the Soviets gave up the attempt to impose supra-national planning and reverted to bilateral forms of agreement. In this period COMECON structure was quietly extended and consolidated on the basis of agreement among willing members. Considerable efforts were made to expand trade and to develop inter-country specialization.

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(d) The New Thrust (1969 onwards)

The occupation of Czechoslovakia and the set-back to the reform movement in Eastern Europe helped to consolidate Moscow's ascendancy in Eastern Europe on the basis of which the Soviet leaders could afford to negotiate with the West. The concept of socialist integration was put forward as the "Comprehensive Programme" in 1969 and approved in 1971. The major theme of this composition, loudly voiced by the Soviets, was co-ordinated planning and, where possible, common planning, while countries like Poland and Hungary were associated with the minor theme of price reform and currency convertibility.

3. At present full members are: Bulgaria, Cuba, Czechoslovakia, GDR, Hungary, Mongolia, Poland, Rumania and the USSR. Yugoslavia is an associated member; North Korea and North Vietnam have observer status and Iraq asked in spring 1973 to obtain a similar status. Finland recently signed a co-operation agreement with COMECON.

B. Structure(1)

4. The COUNCIL meets in full session about once a year. In addition special meetings may be held.

5. Since 1962 there has been an EXECUTIVE COMMITTEE which meets every few months and brings together high national officials. Two new committees at this same level, the COMMITTEE FOR CO-OPERATION AND PLANNING and the COMMITTEE FOR SCIENTIFIC AND TECHNICAL CO-OPERATION were set up in 1971.

6. The SECRETARIAT is a permanent staff which co-ordinates the activities of the various other bodies and reports to the Executive Committee and the Council.

7. There are now about twenty STANDING COMMISSIONS which deal with various economic sectors. Some of these have links with SPECIAL BODIES such as the Electricity Grid, the Druzhiba Pipeline, the Wagon Pool, the COMECON banks and those concerned with metals, chemicals, ballbearings, etc. These specialized organs do not necessarily group all COMECON member countries but only those who have a specific interest in them.

8. Somewhat similar to the commissions are the STANDING CONFERENCES concerned with such matters as legal affairs, patents, freight, etc. There are also two institutes dealing respectively with standardization and the economic problems of the world socialist system.

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(1) A comprehensive account of COMECON structure can be found in AC/127-D/483

9. The two banks are subordinate to the Commission for currency and finance. The International Bank for Economic Co-operation (IBEC) began operations in 1964. Its main task is to clear all members' accounts in transferable rubles - the money of account of intra-COMECON trade. It accepts deposits and grants credits to members and it operates in convertible currencies in Western countries. The International Investment Bank (IIB) started to function in 1971. Its main purpose is to attract deposits and to grant credits for COMECON projects, part of which can be in convertible currency. This bank also operates on Western markets. A special fund was set up in January 1974 for economic and technical aid to developing countries.