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COMMITTEE OF ECONOMIC ADVISERS

THE COUNCIL OF MUTUAL ECONOMIC ASSISTANCE (COMECON)

Note by the Chairman of the Sub-Committee  
on Soviet Economic Policy

The attached report has been prepared by the Sub-Committee on Soviet Economic Policy on the basis of studies provided by various delegations. The document has been brought up to date as far as possible in the light of the latest plenary session of COMECON in June, 1962, although it is too early fully to assess all the implications of this meeting.

2. In any case, the Sub-Committee proposes to keep the activity of COMECON under review.

(Signed) A. VINCENT

OTAN/NATO,  
Paris, XVIIe.

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THE COUNCIL OF MUTUAL ECONOMIC ASSISTANCE (COMECON)

Report by the Sub-Committee on Soviet Economic Policy

SUMMARY AND CONCLUSIONS

The Council of Mutual Economic Assistance (COMECON), set up in 1949, has substantially increased its activities since 1956. Until recently, it was theoretically open to all European countries, but its actual membership was restricted to the USSR and its European satellites. The charter of COMECON was revised at the latest meeting held in Moscow on the 6th and 7th June, 1962, to allow admission of non-European countries, and Outer Mongolia was accepted as a member. Yugoslavia lost her status as an observer in 1958, and Communist China, who had attended previous meetings as an observer, has been absent from plenary sessions since December, 1961. Albania, who is still formally a member, was completely ignored during the last two sessions.

2. The highest authority of COMECON is the Council Plenum which meets twice a year in the capitals of member states, in rotation. The preparation of these meetings, as well as the running of current business, is entrusted to a Council of Deputies who meet regularly in Moscow once a fortnight, and to a Secretariat located in Moscow. Standing Commissions with headquarters in various capitals specialise in various industries or economic problems; they have established sub-committees and working groups. In June, 1962, it was decided that a supra-national directing organ be established but so far there is no information available on the actual implementation of this decision.

3. COMECON pays special attention to science, technique and economic co-operation in each industry. The Standing Commissions provide for exchanges of information, standardisation of methods and formulation of recommendations. Economic relations with the outside world and especially trade in complete plants and assistance to less-developed countries are also considered. It is to be noted that co-operation on special subjects, such as research on nuclear energy and railway transport is also conducted in specialised bodies outside COMECON; the Nuclear Research Institute at Dubna (USSR) and the Organization for Railway Co-operation.

4. Although progress seems to have been slow, significant results appear to have been recently obtained. The implementation of technical and scientific collaboration appears to have been left to bilateral agreement. Countries retain, in principle, the right to grant or refuse the information requested, but it is difficult to say whether, in fact, they are not obliged to yield to pressure from the USSR. As a whole, however, the

USSR seems to have given in this field more than she has received. Specialisation has been attempted: the production of certain types of industrial goods is allocated to certain countries (e.g. power-producing units in Czechoslovakia, refrigerator cars with mechanical refrigeration in the Soviet-occupied Zone of Germany, etc.), or the manufacture of different sizes of the same product is allocated to various countries (e.g. the USSR has reserved the right to build turbines above 100,000 kw).

5. Several common projects are carried out jointly by COMECON countries, the most conspicuous being the "Friendship" pipeline system which is intended to transport Russian oil to several European satellites, and possible other countries. Efforts have also been made to co-ordinate economic plans, first within the framework of annual stages of each country's long-term plans, and more recently in dovetailing as far as possible the longer-term plans themselves.

6. As a whole, it is difficult to assess the importance and value of COMECON as an instrument of integration of the economies of the various countries of the Soviet bloc. Such an assessment, always difficult in the case of international organizations endowed with influence rather than the wielding of power, is still more uncertain in a Communist system, owing to lack of reliable information. In particular, it is not absolutely clear which has more weight:

- (i) between COMECON and Communist parties, the latter having probably a strong impact on decisions, both at national levels and at the level of the Soviet bloc as a whole; this was again emphasized as a conference of Secretary Generals and high party officials, together with heads of governments was held in Moscow recently before the 16th session of the Council Meeting in June, 1962.
- (ii) between countries acting individually, pairs of countries negotiating bilateral agreements, and COMECON itself; and
- (iii) between the European satellites and the USSR, as the latter enjoys an overwhelming political and economic power with the bloc.

7. All these qualifications make very tentative the following appreciation:

- (i) It seems that after several years of stagnation during the period immediately after the war, when Russia was mainly concerned with exploiting the satellites in the form of reparations for war damage, COMECON has promoted a new and more balanced form of co-operation within the Soviet bloc. It is most likely that this activity will continue to expand in the future.
- (ii) Practical results of the increased activity of COMECON in recent years, although perceptible in many cases, may seem limited owing mostly to the natural tendency of countries to resist forms of co-operation implying loss of some of their political or economic independence, and also owing to the complexity of the machinery set up.

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In addition, since the cost-price structure within COMECON precludes the calculation of real costs of production, either within the association as a whole or within its component members separately, there is no means for securing the optimum allocation of resources.

- (111) The countries of COMECON appear to have participated in varying degrees in the economic co-operation within the Soviet bloc and also benefited from such co-operation rather unequally. Firstly, owing to its size, population and variety of natural resources, the USSR is not requested to specialise in production. Secondly, European Satellites are in various stages of industrialisation and the co-operation has been easier and faster among the most advanced countries, such as the Soviet-occupied zone of Germany, Czechoslovakia and Poland, than among the relatively more backward countries: Roumania, Bulgaria and Albania. Thirdly, political factors have played a very important part in economic co-operation within the bloc. As far as credits are concerned for instance, the USSR has provided the bulk, owing partly, it seems, to her anxiety to maintain her grip on the satellites. Among these, the Soviet-occupied zone of Germany has received the lion's share although she has one of the highest incomes per head within the Soviet bloc, both owing to the economic difficulties she experienced as a result of the outflow of manpower and to the political need to build up Eastern Germany as much as possible in the face of the prosperous Federal Republic.

8. In spite of the expansion of economic relations with the outside world, inter-communist trade remains predominant. This trade has increased, as a whole, over recent years more rapidly than the growth of the economies of Soviet countries, which indicates that division of labour between them has made progress. One important aspect, from the point of view of the Western world, of COMECON activities is, of course, the co-ordination of foreign trade and foreign assistance between various members.

9. As a whole, in spite of many remaining uncertainties, it emerges from the study that COMECON is playing an important and growing part within the Soviet bloc. Success should not be over-stated nor the serious difficulties it meets exaggerated. COMECON certainly deserves, owing to the implications of its activities both in the political and economic field, not only with the bloc, but also outside, the closest possible attention of NATO. In particular it will be of great interest to follow any possible attempts by the Soviet bloc to attract non-European members to COMECON, following the revision of its charter last June.

Cont following

THE COUNCIL OF MUTUAL ECONOMIC ASSISTANCE

COM E C O N

1. The Council of Mutual Economic Assistance (COMECON) was set up in January, 1949, originally as a countermeasure against the Marshall Plan, but became seriously active only after 1956, when its organization began to ramify. Its official aim was described in the 1959 revised version of the COMECON Charter as follows:

"The Council for Mutual Economic Assistance has in view, through the union and co-ordination of the efforts of the member countries, the systematic development of their economies, the speeding up of economic and technical progress in these countries the raising of the industrial level of those countries with a less highly-developed industry, the continuous growth of productive labour and the steady rise of prosperity among the peoples of the member countries."

2. With a view to assessing as far as possible the real significance of COMECON, it is attempted in the present note:

- (1) to describe its structure and functions;
- (2) to examine the progress it has so far achieved and its future prospects.

I. STRUCTURE AND FUNCTIONS

(a) Membership

3. According to its statutes, COMECON is now open to all countries, European and non-European. Bulgaria, Czechoslovakia, Hungary and Poland were with the USSR among the founder nations, Roumania, Albania and East Germany joining the organization shortly afterwards. In June, 1962, the necessary modifications in the Charter of COMECON were made to allow admission of non-European countries and Outer Mongolia was accepted as a member. Yugoslavia was never a full member, but occasionally sent observers to COMECON meetings in 1956 and 1957. In 1958 she lost her observer status and applications to recover it have so far apparently met with refusal. Communist China, although invited as an observer, has been ostentatiously absent from the two last Plenum Meetings in December, 1961 and June, 1962, although she seems to have resumed participation in some of the COMECON Committees. Albania, although not formally excluded, was completely ignored in recent months and protested at her exclusion. The attitude of these countries gives further proof of the internal difficulties within the Sino Soviet bloc.

4. The extent of participation of Communist bloc countries in the work of COMECON is uneven. Hungary and Czechoslovakia seem to be most active, according to the record of attendance at the meetings of various bodies of the organization. East Germany appears to be more inclined to favour its direct links with the USSR, while Poland still maintains important ties with the free world. The group of less-developed countries (Roumania, Bulgaria and Albania)

is rather suspicious of COMECON's tendency to recommend specialization and an international division of labour within the bloc, which might result in the preservation of existing differences in the degrees of industrialisation, thus limiting the economic freedom in the development process of these countries. Communist China is clearly most interested in what COMECON can offer in the spheres of electric power, chemicals and building, and is least interested in light industry.

(b) Organization

5. The highest authority of COMECON is the Council Plenum, which, according to the statutes, meets twice a year in the capitals of member states in rotation, the host country providing the Chairman. Each member sends a delegation to the plenum, usually led by the Chairman of the State Planning Commission. In the intervals between plenums, COMECON is run by a Council of Deputies and a Permanent Secretariat. In June, 1962, the creation of a Supranational Directing Organ was decided, but so far there is no information on the actual implementation of this decision.

6. The Council of Deputies consists of the permanent representatives of member states, and meets regularly in Moscow once a fortnight. It reviews all problems in order to find a common position of member countries, prepares the agenda, policy proposals and drafts of resolutions for the plenum meetings. It deals with questions of a current nature, fixes the limits of competence of the Standing Commissions, orders provisional enactment of their recommendations, and directs the work of the Secretariat.

7. The staff of the Secretariat, located in Moscow, and whose size has sometimes exaggerated, especially during the early years, can be estimated at about 200. The Secretariat is headed by a Permanent Secretary with two assistants. Each Standing Commission has its own secretariat, which is a constituent part of the COMECON secretariat.

8. The first type of collaboration introduced by COMECON between member countries was the exchange of scientific and technical information. Joint scientific and technical bilateral commissions have been formed between all combinations of pairs of member countries. More recently, bilateral co-operation has been expanding in the economic field, between COMECON members; Hungary, Czechoslovakia and Poland seem to be the most active in this respect. The newest form of bilateral collaboration consists of the combination of both previously-mentioned fields. Joint committees for economic, scientific and technical collaboration have so far been set up only between pairs of countries that have reached a relatively advanced stage of development. East Germany, Czechoslovakia and Poland have established bilateral committees of this kind between themselves.

9. The Standing Commissions are concerned with chemical industry, foreign trade and delivery of complete plant units, building, engineering, economic questions, transport, oil and gas industry, non-ferrous metals, agriculture and forestry, coal industry, ferrous metals, light and food industries, electric power, defence industry, and atomic energy for peaceful purposes (set up in 1960). Science, technique and economic co-operation are invariably prominent objects of attention. The headquarters of the Standing Commissions are located in the various capitals (six of them are in Moscow) and the Chairman and Secretary of each Commission are nationals of the country where the seat of the Commission is located. In other respects, the Commission frequently have varied organizational forms. They appear to hold a position within COMECON somewhat analogous to that of the Ministries within the Soviet system: they represent a specific field of economic activity within which they are responsible for general administrative action. In June, 1962, it was decided to create the following standing commissions: for standardisation, for co-ordination of scientific and technical research and for statistics.

10. Each of these Standing Commissions has set up a number of Sub-Committees and Working Groups, whose frequency of meetings has steadily increased. Those subordinate to the Standing Commissions for agriculture and forestry, building, chemical industry, ferrous metals and the light and food industries account for the vast majority of reported meetings.

11. In addition, there are a few multilateral bodies which are not included in COMECON. For instance, all Communist countries, including China and the Asian satellites, participate in the joint nuclear research institute at Dubna (USSR). In railway transport there is scope for better co-ordination, as in COMECON countries railways were constructed according to a variety of systems and are still using different gauges and various types of current (A/C and D/C). An "Organization for Railway Co-operation" was set up in 1956-1957. Communist China has been more interested in this body than in COMECON, and non-bloc experts have occasionally attended conferences. The special Standing Commission for transport, created by COMECON in January, 1959, keeps in touch with the "Organization for Railway Co-operation" by exchanges of information and reciprocal participation in conferences.

(c) Functions

12. In general, the Standing Commission exchanges information, standardises methods and formulates recommendations. On the whole, it would seem that the two subjects which now receive most attention in COMECON are the chemical and construction industries; trade in complete plants either within the bloc or outside is considered as specially important. COMECON is supposed to co-ordinate defence production within the Soviet bloc, and a Standing Commission for the defence industry has been in existence at least since 1958, although its activities have never been reported publicly. A "European Communist Agricultural Conference" held in Moscow in

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February 1960 urged COMECON to study possibilities of further agricultural specialisation. Interest in agricultural matters had until then been focussed on foreign trade in agricultural products, on agricultural mechanisation and electrification, and, more recently, on rural building. As a whole, COMECON seems to have been less concerned than might have been expected with defence and agriculture, two subjects of political significance. In general, however, there has been progress from discussions and exchanges of information to the solution of concrete problems.

13. In recent years, growing attention has been given to consultation, co-operation and exchanges of information on economic relations with non-Communist countries. Some co-ordination of economic assistance plans to the less-developed countries of the free world seems to be undertaken, and progress is checked on implementation in areas where more than one COMECON member has projects under way. Market research and data on trade opportunities are shared, and an effort has been made to eliminate competition between bloc suppliers in selling to free world countries.

14. For formal purposes, COMECON is a committee of equals and no recommendations are legally binding unless confirmed in subsequent bilateral agreements. Nevertheless, the USSR's leadership is tacitly accepted, and through direct representation, as well as through the Communist parties' machinery, the USSR has often used her dominant position to induce or enforce co-operation on matters of particular importance to Soviet interests.

## II. PROGRESS ACHIEVED AND FUTURE PROSPECTS

15. Difficulties of a general nature encountered by the Soviet bloc in its move towards economic integration must be kept in mind when examining the achievements and the future prospects of COMECON.

### (a) Difficulties encountered

16. The predominant rôle played by the USSR in the process of the economic integration of the European Communist countries turns COMECON more into machinery for arbitration in the hands of the USSR than for genuine co-ordination in favour of COMECON as such, although an evolution seems to be taking place in this respect. Up to 1954, the USSR was able to drain the resources of its satellites to its own profit, and attempts at direct economic co-operation between the satellites were originally opposed by the Soviet Union. Since 1955/56, the Soviet Union seems to have accepted the idea of taking into account the requirements of economic development of the European satellites in order to allow the functioning of an industrial area which constitutes one of the most important assets of the Soviet bloc; but the USSR intends to maintain her control over the satellites and to

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derive the highest possible benefit from the economic co-ordination. The system inaugurated in the peoples' democracies is entirely dependent on the political support of the Soviet Union and the functioning of their economies depends on the supplies provided by the USSR: 97% of the European satellites' petroleum comes from the Soviet Union, 84% of pig iron and cereals, 75% of iron ore, 67% of cotton and 60% of non-ferrous ores. COMECON has no executive power, and the meetings of the heads of the Communist parties and officials constitute the real top authority, passing on directives to the specialised technical commissions of COMECON, thus subordinating economic requirements to political considerations.

17. The disparity of the level of development between the various member states constitutes by itself a serious obstacle to economic integration, as the interests of the less-developed countries are often in contradiction to those of the more advanced ones. For instance, the less-developed countries may find it difficult to protect their new industries from competition from highly-industrialised neighbours producing the goods at a much lower cost. The more advanced countries may find it difficult to align themselves to the standardisation imposed by the Soviet Union, when their methods are much more advanced than the Soviet ones. Poland has occasionally complained about the economic privileges derived by the countries which are well-endowed with natural resources. The profitability of investments in countries where raw materials are to be produced may be inferior to the rentability of investment in countries developing capital goods' industries, and specialisation may tend to stratify the prevailing inequalities between member states.

18. The Communist camp has so far proved unable to overcome the paradox of being compelled to conduct trade between Communist countries on the basis of the "capitalistic" free world market prices. The unrealistic fixing of exchange rates for the various European satellite currencies adds to the price irrationality. The rouble and the Bulgarian lev devaluations may be indications that a more rational price system is being considered, but numerous adjustments are still indispensable before any real progress in this particular field can be made. These obstacles have so far prevented any success in the attempts to establish a multilateral clearing system inside COMECON. It is questionable whether any real degree of multilateralism is consistent with the type of national economic planning prevalent in the bloc countries, and convertibility may prove incompatible with the orientation of the economy towards a maximum rate of growth.

19. Furthermore, within the centrally-planned economies, the tendency towards vertically-integrated industrial organization constitutes an additional difficulty hampering economic co-operation. Each bloc country still relies mainly on its own system of industrial standards, which are rarely identical to those used in other countries. In addition, the application of standards varies greatly.

Each failure in the so far agreed system of specialisation and standardisation reinforces the argument for increased self-sufficiency.

(b) Various achievements

Technical and scientific collaboration

20. The main progress achieved by COMECON has taken place in the field of technical and scientific collaboration. However, recommendations of the Council have to be implemented through bilateral agreements, and some countries benefit more than others from the collaboration. The large number of bilateral relationships also creates organizational complications.

21. In principle, technical documentation is supplied by one bloc country to another on specific request, and the country possessing the documentation can decide whether or not to grant it; if granted, it is to be supplied free of charge. In practice, documentation is probably often handed over in compliance with Soviet pressure, but it appears that not all requests are in fact granted. Manufacturing licences are provided only on the basis of special agreements. The existence of COMECON does not preclude member states from negotiating separately either with member or non-member states to buy licences or know-how for their individual use. For instance, the Poles have maintained that they would not have to divulge any secret information obtained under licences from the West to the Soviet Union. Individual countries are not precluded from selling manufacturing licences to foreign firms.

22. As a whole, the USSR appears to give more than she receives, but on balance East Germany and Czechoslovakia extended to the USSR at least as much information as they were offered. Poland and Hungary would appear to gain slightly, while documentation extended to the less-advanced member countries (Albania, Bulgaria, Roumania) is probably greater than what can be provided in return. More recently, direct large-scale co-operation between enterprises and institutes in research, development, design and production between the industrialised member countries has become increasingly prominent, probably as a result of the activity of the bilateral economic co-operation commissions.

Specialisation

23. The first attempt to introduce some form of specialisation started at the end of 1955. Progress in this field would appear to have been rather slow up to now, and is encountering some resistance, or at least reluctance. It will be noted that measures of specialisation and standardisation do not apply to the USSR, which (like Communist China) is considered to be able

to develop its own industries without limitations. In 1955 and 1956 COMECON formulated a number of recommendations for distributing the production of various types of machinery between the member countries; coalmining equipment was to be produced in the USSR, East Germany, Poland and Czechoslovakia; power-producing units only by Czechoslovakia; equipment for the concentration and briquetting of lignite, and refrigerator cars with mechanical refrigeration, to be made only by East Germany. Poland was assigned additional tasks in mining coal. In December 1958, the tenth Plenum adopted recommendations on specialisation and co-operation in the production of plastics, chemical staple fibres, and synthetic rubber based on the utilisation of petroleum and natural gases. It also took decisions on the manufacture of mineral fertilisers and on the production of various types of rolled metal and various metal tubing. The supply of raw materials for the various metallurgical industries and power distribution was examined in May 1959, and further measures of specialisation in the production of machine tools, drilling rigs, oil-refinery equipment and excavators were adopted. More recently, ball bearings, wire mills, equipment for steel rolling mills, and for the dairy and canning industries, in addition to further specialisation in the production of chemical equipment have been considered. The production of agricultural machinery, land amelioration equipment, insecticides, artificial fertilisers, synthetic fodder and specialisation in seed husbandry and livestock breeding have also been mentioned. Specialisation is often based on the size of the final product; for instance, in the production of turbines, the Soviet Union reserved the right to build units above 100,000 kw. Those built in East Germany and Czechoslovakia should range from 50 to 100 kw., and those produced in Poland and Hungary should not exceed 50,000 kw.

24. It is difficult to ascertain how far these specialisation agreements have been implemented. Initially, there was some resistance for national and prestige reasons, since previous policy tended towards the establishment of autarchy within each individual country. More recently, it would appear that this reluctance has been overcome. Most of the specialisation that has occurred so far represents a development of traditional industries and specialities which would have been brought about by the normal interplay of market forces. Division of labour is now being applied as a deliberate policy to new branches and techniques, and some benefits are already perceptible in such industries as motor vehicles, machine tools and chemicals. The relatively slow progress of specialisation appears to have been due to several factors; the lack of sound methods of comparison of costs in a Communist system has considerably increased the complexity of the task, and the absence of realistic exchange rates between the Communist currencies adds to the confusion.

25. In agriculture, it is generally agreed that East Germany and Czechoslovakia will cover their own needs in meat and livestock products, but will import cereals and concentrated fodder. Poland, Hungary, Roumania and Bulgaria are expected to have large quantities of vegetable and animal products for export. In addition, Bulgaria is to provide agricultural raw materials. The USSR will remain an exported mainly of cereals and cotton.

#### Standardisation

26. Although standardisation is less likely than specialisation to give rise to difficulties between COMECON members, significant progress has only been made in a limited range of products and manufacturing processes. Until 1956 collaboration on industrial standards was carried out mainly through the "International Organization for Standardisation". In addition, since 1956, various standards' institutes of bloc countries meet annually, and a number of working groups have been set up to submit recommendations in various branches of industry. They study such subjects as steel specifications, rolled steel sections, raw materials for the metallurgical industry, mechanical testing of metals, chemical analysis of metallurgical materials, diameter and pitch of screw threads, machining tolerances, pipes and tubes, engineering draughtsmanship practices and electrical equipment. The number of types of equipment have been reduced, inter alia, in coalmining, cement manufacture, machine tools and agricultural machinery. The draft of a single modular system for designing and erecting buildings was approved by the middle of 1960. The influence of the Soviet representatives at the meetings has led to the adoption by some countries of certain Soviet state standards, but this tendency has been opposed by countries with well-established industries, because they would usually lead to a deterioration of the quality of their products.

27. Standardisation of accounting practices in order to provide comparable statistical data, which are essential for bloc-wide planning, has been promoted. Uniform methods for compiling statistics on production and on utilisation of national income, and also for measuring the effectiveness of investments and costs of production have all been considered, but they are still far from being fully implemented.

#### Joint investment projects

28. Among the fairly numerous joint investment projects, the most important one is undoubtedly the network of pipelines - the so-called "Friendship" pipeline - to supply Soviet oil to Poland, East Germany, Czechoslovakia and Hungary. The other - less-advanced - countries of COMECON will not benefit directly from this project. Indeed, Roumania has shown some signs of anxiety as to the disposal of her petroleum products, since

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the completion of the oil pipelines is bound to intensify Soviet competition, which had already become apparent in outside markets. The interlinking of the electric power grids of East Germany, Poland, Roumania, Czechoslovakia and Hungary with the integrated power grid of the European part of the USSR is another major project planned to be achieved by 1965. The Danube Basin development scheme (electric power, flood control, transport facilities and fishing) has been under consideration since 1956, although it is not quite clear if this regional project is to be considered as a result of COMECON recommendations. Enterprises have been set up in COMECON countries with the assistance of other member states; for instance, atomic reactors have been built with Soviet aid in Poland, Czechoslovakia, East Germany and Roumania. Many other examples of joint projects could be mentioned, but the overall impression remains that the less-developed countries - Albania, Bulgaria, Roumania - have not been particularly favoured.

#### Co-ordination of economic plans

29. For a long time there has been at least some kind of co-ordination of the annual economic plans of member countries. Although there are few accounts of the process of co-ordination, it may be assumed that these plans had somehow to be approved by the USSR, which was expected to supply a proportion of the basic materials required by the various satellites. COMECON also attempted to weld together the annual economic plans drawn up by the individual countries. In fact, up to 1958, this was its main task in the field of co-ordination of economic plans. However, it appeared that such retrospective co-ordination was extremely complicated in many respects. Therefore, since 1957, attempts have been made to synchronise and co-ordinate the various national longer-term economic plans. The Standing Commissions of COMECON have been made the starting point for the preparation of effective long-term plans covering an agreed uniform period up to 1980. The Communist leaders have repeatedly stressed that this does not mean that each Communist country's economic development is to be worked out in accordance with a prefabricated overall plan for the Communist bloc as a whole. Some progress seems to have been made in methodology, but so far no single all-embracing plan has been produced.

#### Trade and credits

30. The influence of COMECON on the trade plans of member states, which started only after 1956, has since been growing steadily as the original quest for economic autonomy, mainly based on ideological grounds, and including the development of major industries in each of the countries, has given way to increased emphasis on the division of labour among COMECON member states. The activities of COMECON and of the various other multilateral and bilateral bloc organizations help to knot the bloc into closer integration. However, so long as intra-bloc trade continues to be directed through an intricate network of bilateral trade agreements,

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detailed negotiations will have to be delegated to the parties directly concerned, and it remains an open question how far such negotiations reflect the recommendations of COMECON. Complaints have been voiced at various Plenum meetings about the non-application of agreed recommendations. So far it would seem that the "Socialist world market" grew up empirically, rather than according to a prefabricated design.

31. Although the proportion of trade of the Sino-Soviet bloc directed to the outside world has increased from less than 20% of all transactions during the early 1950s to over 25% in 1960, the predominance of intra-bloc trade remains the most salient feature. Trade with other COMECON countries is more important for the European satellites than for the USSR. Conversely, trade with Asian Communist countries forms a larger proportion of the USSR's trade than of the European satellites' trade (with the exception of Albania since 1960), notwithstanding a serious reduction of the USSR's trade with Communist China in recent years.

Trade of COMECON countries with each other  
and with the bloc  
(as a percentage of total trade)

Country	Percentage of total trade with COMECON countries			Percentage of total trade with all Sino-Soviet bloc		
	1958	1959	1960	1958	1959	1960
USSR	52.4	52.0	53.1	72.8	74.4	70.6
Poland	50.7	56.2	56.6	55.8	60.7	60.7
East Germany	65.4	69.8	-	72.9	76.0	-
Czechoslovakia	61.1	63.8	63.8	69.0	71.3	70.2
Hungary	60.4	61.4	62.3	67.8	70.4	67.3
Roumania	75.1	72.7	66.8	77.2	79.3	71.1
Bulgaria	81.8	78.7	-	84.8	82.0	-
Albania	95.9	-	-	96.1	-	-

32. The overwhelming proportion of reciprocal trade among COMECON countries, excluding the USSR, is carried out by four of them: East Germany, Czechoslovakia, Poland and Hungary. Roumania, Bulgaria and Albania have been conducting the largest part of their intra-bloc trade with the USSR. From the point of view of the USSR, the main bloc trading partners are East Germany, Communist China and Czechoslovakia, followed by Poland and Bulgaria. In 1960, the USSR's trade with Communist China dropped by about 19% as compared with 1959.

33. Between 1955 and 1959, the average annual increase of trade between member states was about 9%, but the rate of growth has been very uneven, the years 1957 and 1959 being "boom" years. Reciprocal trade between the more advanced member countries expanded even more. In 1960, Hungary, Poland and Czechoslovakia increased their exports to the other COMECON countries at a

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higher rate than their world exports. Hungary and Poland increased their exports to the Soviet Union faster than their exports to other satellite countries. Roumania, on the other hand, reduced her trade with COMECON countries (this reduction resulting mainly from the evolution of her exports to the USSR).

34. According to what has been planned for the period 1960/65, the main trends may be characterised as follows:

- USSR: is expected to increase her trade with Poland, Czechoslovakia and Hungary faster than with East Germany and the other less-developed European satellites.
- East Germany: will increase her trade primarily with Czechoslovakia, and, in the second instance, with Roumania.
- Czechoslovakia: is expected to give priority to trade with East Germany, and thereafter to Poland and Hungary.
- Poland: will increase her trade mainly with Hungary and next with Bulgaria and Roumania.
- Hungary: will increase her trade primarily with Poland, and next with Bulgaria and Roumania.
- Roumania: will increase her trade primarily with Bulgaria, and then with Hungary and Poland.
- Bulgaria: will increase her trade mainly with Roumania, and then with Hungary and Poland.

35. Thus, the relative importance of trade relations involving the USSR may slightly decline in favour of increased trade between lesser-developed member states, although it may be questioned whether the planned increases will in fact be achieved. The USSR is to continue to provide the satellites with very substantial amounts of crude oil, iron ore and other basic materials required for their industrial development. The present dependence on raw materials from the USSR is probably not considered by either side to be a satisfactory solution in view of the USSR's own increasing demand for raw materials, and possibly the wish to increase exports of raw and basic materials to non-bloc countries. Nevertheless, the political advantages for the USSR of maintaining satellite dependence on her supplies will probably outweigh any economic inconveniences involved.

36. Trade between COMECON members is conducted mainly on a bilateral basis, and each country seeks to balance bilaterally her exports and imports. Nevertheless, East Germany and Czechoslovakia regularly earn surpluses with the group as a whole, while Hungary barely breaks even, and Poland has in recent years been in deficit. Among the less-developed COMECON countries,

Roumania and Bulgaria have often been in deficit in their trade with other member countries, and Albania invariably runs a huge deficit.

37. Intra-bloc credit and grant commitments from 1956 to the middle of 1961 amount to the equivalent of about \$5 billion. With the exceptions of the USSR, which provides about 70% of total intra-bloc aid, and Albania, which is only a borrowing country, all the other Communist countries are at the same time lenders and borrowers. Communist China, for instance, between 1956 and July 1961, reportedly extended credits and grants to other bloc countries amounting to nearly \$700 million (or about 14% of the total), but had herself received \$420 million on loan from the USSR. Among the European satellites, most of the credits were extended by only two countries - Czechoslovakia and East Germany. The latter, however, had received (almost exclusively from the USSR) about three times more than she had extended. All the other European satellites had received much more than they had given. Within COMECON, the largest borrowers are East Germany, Poland and Hungary, accounting for over two-thirds of the total credits extended. Per head of population Czechoslovakia is the biggest lender, while Albania received per capita nearly three times as much as Hungary, her closest rival. Aid to Albania has, however, been cancelled since the end of 1961.

(c) Prospects and future trends in intra-bloc economic relations

38. The process of economic integration, which was started in 1956/57, is slowly gathering momentum, and tends to develop its own inherent non-reversible dynamics. It may be expected that the existing network of bilateral and multilateral committees and commissions will be further extended, and that participation of COMECON countries in such organs will become increasingly active. The extension of bilateral relations may have profounder results than any adjustment in the central organization of COMECON.

39. This is not to say that the process under way is not encountering considerable difficulties. The member countries of COMECON still present a spectacle of considerable economic diversity and the attempts at integration create new strains resulting from national feelings and resentment of existing inequalities.

40. It remains at present a moot question as to whether future increases in complexity and in the extent of participation will convert COMECON from a consultative council into some kind of supra-national organization. This seems unlikely, for COMECON is not the only link binding together the economies of member states. As bilateralism has so far developed

most between the USSR and the European satellites, continuation of this trend will tend to bring the economies of the satellites closer together, rather than to bring them closer to the Soviet economy. Trade between European satellites is expected to increase faster than their trade with the USSR, and this trend will reinforce the interdependence of the European satellites. But that extended trade should be achieved under the auspices of COMECON, or under increased bilateralism makes little difference. In any case there is so far no sign to suggest that the influence of COMECON is likely to decline.

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Tables:

1. Overall indicators of the diversity in economic and social aspects of the COMECON countries.
2. Intra-bloc trade of COMECON member countries in 1959.
3. Intra-bloc trade of some COMECON countries in 1960.
4. Intra-bloc aid (credits and grants) 1956 to July 1961.

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Table 1

OVERALL INDICATORS OF THE DIVERSITY IN ECONOMIC AND SOCIAL ASPECTS OF THE COMECON COUNTRIES

	Popula- tion (in millions) mid 1960	Area (in 000 sq.km.)	Industrial Capacity  Production of electricity (kwh per inhabitant) (1959)	Social situation - cost of living	
				Cost of food basket expressed in minutes of labour (1961)	Cost of selected expen- ditures other than food in minutes of labour (1961)
(0)	(1)	(2)	(3)	(4)	(5)
USSR	214.4	22,403	1,260	3,248	19,792
East Germany	17.2	107	2,153	1,776	7,109
Czechoslovakia	13.7	128	1,614	2,561	12,025
Poland	29.7	312	902	2,790	16,189
Hungary	10.0	93	715	2,455	11,310
Roumania		238	374	4,060	16,430
Bulgaria	7.9	111	n.a.	3,538	n.a.
Albania	1.6	29	n.a.	n.a.	n.a.

SOURCES: Column (1) Statistical Papers series A Vol. XIV No. 2 - Population and Vital Statistics Report - U.N.  
 Column (2) Statistical Yearbook; United Nations - 1960  
 Column (3) AC/89-WP/89, annexe - Tableau No. 12  
 Column (4) AC/89-WP/89, annexe - Tableau No. 7  
 Column (5) AC/89-WP/89, annexe - Tableau No. 9

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Table 2

INTRA-BLOC TRADE OF COMECON MEMBER COUNTRIES IN 1952

million US \$

	Trade with the USSR		Trade with COMECON		Trade with Sino-Soviet bloc		Trade with the World	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
East Germany	941	969	1,481	1,393	1,609	1,518	2,121	1,992
Czechoslovakia	588	598	1,092	1,035	1,227	1,144	1,726	1,602
Poland	313	452	606	834	661	897	1,145	1,419
Hungary	204	253	582(x)	506(x)	627(x)	551(x)	766	789
Roumania	250	235	373	370	410	402	523	502
Bulgaria	270	261	401	409	411	422	495	535
Albania	15	50	32(x)	78(x)	36(x)	82(x)	37(x)	85(x)
USSR			2,950	2,519	4,075	3,736	5,442	5,073

(x) = estimate

SOURCE: United Kingdom Foreign Office, Soviet Section, Research Department IA.8/18.G = USSR C/61, Annex I.E.

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Table 3  
 INTRA-BLOC TRADE OF SOME COMMON COUNTRIES IN 1960

(million US \$)

	Trade with the USSR		Trade with COMMON bloc		Trade with the World	
	Exports	Imports	Exports	Imports	Exports	Imports
Czechoslovakia	659	630	1,228	1,161	1,929	1,816
Poland	390	465	728	868	1,326	1,495
Hungary	253	289	529	608	866	960
Roumania	281	266	472	440	717	648
USSR			3,120	2,820	4,004	3,822
	(1)	(2)	(3)	(4)	(5)	(6)
	Exports	Imports	Exports	Imports	Exports	Imports
	(7)	(8)	(9)	(10)	(11)	(12)

SOURCE: Bulletin économique pour l'Europe, Nations Unies; Vol. 13, No. 1

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Table 4

INTRABLOC AID (CREDITS AND GRANTS) - 1956 to July 1961

(million US \$ )

Lending Countries	Borrowing Countries									
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	Grand Total	Total European Satellites	Albania	Bulgaria	Czecho-slovakia	East Germany	Hungary	Poland	Roumania	China and Asian Satellites
USSR	3,422.1	2,271.9	139.3	371.1	13.5	1,015.0	338.0	300.0	95.0	1,150.2
Communist China	694.5	192.5	160.0	-	-	-	32.5	-	-	502.0
Bulgaria	18.3	15.8	4.5	-	-	5.9	5.4	-	-	2.5
Czechoslovakia	383.1	373.4	26.1	15.1	-	27.5	27.8	212.5	64.4	9.7
East Germany	336.8	225.8	16.5	-	-	-	16.6	164.0	28.7	111.0
Hungary	16.2	3.7	3.7	-	-	-	-	-	-	12.5
Poland	43.1	18.1	6.9	-	-	-	11.2	-	-	25.0
Roumania	62.8	18.3	7.5	-	-	-	10.8	-	-	44.5
TOTAL BLOC	4,976.9	3,119.5	364.5	366.2	13.5	1,048.4	442.3	676.5	188.1	1,857.4

NOTE: There are a number of intra-bloc credits and grants which are not included because the amounts involved have not been reported and adequate data are not available to estimate the value of the aid.

SOURCE: United States Department of State: Research Memorandum RSB-6, 15th September, 1961 (unclassified)

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