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ECONOMIC COMMITTEE

COMECON: DIVISION OF LABOUR AND INTEGRATION TARGETS

Note by the German Delegation

The most important criterion for the extent of economic co-operation among the COMECON countries(1) is the share of intra-bloc trade in overall trade (Annex I). Mere capital movements play only a minor rôle of the inconvertibility of national currencies and the limited reserves of convertible foreign exchange. Services are also paid for with goods and are thus reflected in the trade balances.

2. In 1970 more than 60% of foreign trade was among the COMECON member countries themselves. The share of intra-bloc trade in overall foreign trade of this group of countries decreased during the following years and reached its lowest level in 1974 with about 53% but rose again later (1977: 57.7%).

3. There was no uniform development in the various countries. In three countries - Romania, Hungary, Poland - the share of COMECON trade in overall foreign trade in 1978 was clearly below that of 1970. This downward trend was strongest in Romania (the average reduction of intra-bloc trade during the period 1970-78 was 2.8% per year), less stronger in Hungary (1.95%) and Poland (1.8%).

4. The increase in the total value of intra-bloc trade from 1975 is not only due to the growing volume of goods but reflects also inflationary trends. However, official data in this respect are available for the USSR only. According to these data the value shown for Soviet intra-bloc trade in 1976 - the second year of the new COMECON price fixing modus - contains price increases of 16%. The rise in prices slowed down in 1977, but was still as high as 7.2% in 1978.

5. Especially as a result of the high prices charged by the USSR for raw material supplies from 1975-76 the indebtedness of the COMECON partners vis-à-vis the USSR grew considerably in recent years. The accumulated trade balance deficit of these countries vis-à-vis the USSR amounted to about 3,500 million rubles in 1976-78.

This document includes: 3 Annexes

(1) If not stated otherwise the term COMECON countries and/or COMECON area does not include Cuba, Mongolia and Vietnam.

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6. Since 1960, in spite of the increasing foreign trade volume, about 40% of all goods traded in the COMECON area have constantly been of Soviet origin. As a rule, almost two-thirds of all Soviet supplies consist of raw and basic materials (Annex II). The economic imbalance between the USSR and the much smaller COMECON partners, which is evident in foreign trade operations in the COMECON area, and the one-sided goods structure of Soviet exports render any genuine division of labour in the COMECON area difficult from the outset.

7. Although the USSR is increasingly interested in investment participations of the COMECON countries in developing and extracting its raw materials, it concedes neither the right of co-determination nor ownership rights to these countries. Thus, these participations have practically the character of compensation deals: the investments - agreed on a bilateral or multilateral basis - are repaid from the starting production. Up to now, the COMECON partners have been able to obtain certain price advantages in this way. However, it appears doubtful that the USSR will be willing or able in future to show a favourable attitude towards its investment partners with regard to prices.

8. Although the engineering sector is best suited for specialization and division of labour in production, the share of about 30% in overall intra-bloc exports of machines and equipment produced on the basis of specialization and co-operation agreements is still relatively low. However, the percentage differs widely in the various COMECON countries: in the USSR only 8% of the appropriate exports to the COMECON countries consist of "specialized" machines and equipment, while in the GDR their share is over 40%, in Hungary even 50% (Annex III).

9. Since 1971 - when the complex programme was established - increased specialization has been the declared objective of the COMECON, and a multitude of agreements has been concluded for that purpose. However, official announcements show that these agreements cover primarily the exchange of finished products or at least of largely finished production units.

10. In absolute terms the GDR is by far the largest exporter of "specialized" machines and equipment in the COMECON area. Thus, the assumption that all the Soviet bloc countries which were already industrialized at the end of the Second World War adjusted their production primarily to a specialization within COMECON has proved to be wrong. The CSSR and Poland do not export even half as many "specialized" machines to the COMECON area as the GDR. The GDR owes its leading position to the fact that it adjusted a major part of its machine production to the requirements of the USSR already in the early days of COMECON - i.e. a long time before the complex programme - and that it has maintained this line until today.

11. The efforts to specialize the production in the COMECON area further are continued although there is still concern - obviously with good reason - in the non-Soviet Warsaw Pact countries that intensive specialization may make them even more dependent on their partners. The declining economic growth, lacking observance of contracts by the COMECON countries and the strong interests in trade with the West are also factors impeding any too rapid and too far-reaching specialization. Moreover, the economic advantages of specialization can still not be established with accuracy because of the varying price and cost structures and the inconvertibility of currencies.

12. As regards future co-operation within COMECON, objectives and expectations differ - in line with the intentions of the USSR, the non-Soviet Warsaw Pact countries and the non-European COMECON countries.

13. The USSR has not given up its intention to unite the COMECON countries under its leadership in a closely intertwined economic community. However, the insufficient politico-economic instruments and especially the lacking authority of the COMECON institutions to issue directives continue to impede multilateral co-operation among COMECON countries.

14. Therefore, close bilateral relations with the COMECON partners (which will continue because of the USSR's economic preponderance and in view of the dependence of the non-Soviet Warsaw Pact countries on Soviet raw materials) are for the USSR the most important politico-economic leadership element within COMECON at present. Bilateral co-operation is contractually agreed in the five-year plans of the COMECON countries. Since 1976 these plans have contained a so-called "integration part" which covers reciprocal deliveries and purchases.

15. Moreover, multilateral co-operation is also to be included more strongly in the medium-term plans of the COMECON countries. Thus, so-called "common" COMECON projects were already planned for the period 1976-80 providing for investments of 10,000 million rubles by all COMECON countries. The USSR, on whose territory most of the projects are located, contributed the major part of these investments which are not yet high in comparison with overall Soviet investments (1978: more than 120,000 million rubles).

16. A new impetus for integration is to be given by the so-called target programmes which have been agreed for the period up to 1990. They provide for joint developments in important economic sectors. COMECON investments amounting to 70,000 to 90,000 million transfer rubles are planned for that purpose. However, also these target programmes can only be realized on the basis of bilateral agreements although it cannot be excluded that the implementation of these programmes will start a self-acting mechanism in terms of a more intensive multilateral plan co-ordination which would have the advantage that no supranational planning would have

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to be institutionalized within COMECON. The propagated international attraction of COMECON as an "open" economic community could thus be maintained.

17. For the future, the USSR demands even greater advance commitments by the COMECON countries for joint projects, giving as reason, amongst other things, that the difference in the standard of living of its own population and that of the considerably "wealthier" other COMECON countries has to be balanced. Up to now the USSR had supplied its COMECON partners with important raw materials and foodstuffs, often at the expense of its own consumers, so that now a reverse "transfer" had to take place.

18. The non-Soviet Warsaw Pact countries have vital interest in further co-operation since they hope that his co-operation will secure - at least partly - their raw material supplies. They expect furthermore that the target programmes will give them a possibility to develop their own economic projects with investment credits from their COMECON partners. Even Romania indicated that it was interested in co-operation in this sense.

19. However, in some countries - especially in the CSSR and the GDR - the opinion is also expressed that the increased deliveries to COMECON partners within the framework of the target programmes would overcharge their own economy. The CSSR, for instance, was supposed to reserve almost 20% of its engineering capacity for the target programmes. However, Soviet pressure to see these programmes through seems to be so strong that the countries concerned will hardly be able to avoid these commitments.

20. The non-European COMECON countries are primarily interested in economic support by the other COMECON countries. They enjoy preferential treatment in trade and receive massive financial, technical and personnel aid.

NATO,
1110 Brussels.

PERCENTAGE OF INTRA-BLOC TRADE (WITHOUT CUBA, MONGOLIA, VIETNAM)
IN OVERALL TRADE OF THE COMECON COUNTRIES

	1970	1971	1972	1973	1974	1975	1976	1977	1978
Bulgaria	74.2	74.7	76.8	75.4	70.0	73.8	76.7	78.1	.
CSSR	63.8	63.7	66.7	64.7	59.6	64.6	66.3	65.9	67.7
GDR	67.2	67.1	67.7	65.9	60.1	66.1	63.9	67.8	67.3
Poland	62.9	61.8	59.1	53.1	46.9	49.6	50.0	53.2	54.3
Romania	49.1	46.9	46.4	43.0	34.7	37.8	39.1	41.8	39.0
USSR	55.6	56.2	59.6	54.0	48.8	51.8	48.3	52.5	55.7
Hungary	61.7	63.5	64.5	62.6	60.0	65.6	53.8	57.1	51.6
COMECON in total	61.5	61.2	62.1	58.3	52.6	56.5	55.4	57.7	.

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ANNEX II to
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RAW AND BASIC MATERIALS SUPPLIES(1) OF THE SOVIET UNION
TO THE COMECON COUNTRIES, (IN MILLION RUBLES) AND
ITS SHARE IN OVERALL EXPORTS OF THESE COUNTRIES
(IN PER CENT)

Importing country	1971		1972		1973		1974		1975		1976		1977	
	Million rubles	%												
GDR	995.2	58.0	952.3	57.0	1,132.5	61.0	1,107.7	51.2	1,904.6	63.9	2,026.5	63.0	2,202.3	60.2
CSSR	718.9	59.0	772.1	61.6	797.8	58.9	853.2	56.5	1,346.0	66.7	1,577.9	68.0	1,542.9	57.6
Poland	687.2	53.2	701.6	53.7	737.5	51.0	851.3	46.3	1,457.0	59.5	1,520.5	55.3	1,732.2	54.2
Hungary	528.8	60.1	586.2	64.9	676.4	69.3	689.1	60.7	1,122.5	67.7	1,181.1	66.7	1,269.4	61.4
Romania	228.2	53.5	230.9	49.1	257.7	49.6	256.4	44.3	379.8	54.1	420.0	54.5	433.4	43.2
Bulgaria	448.2	45.5	476.0	42.4	563.9	45.8	609.8	41.2	1,169.7	56.8	1,276.0	56.0	1,308.2	49.2

1) Fuel and raw materials, chemical products, building material wood and paper.

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EXPORT OF MACHINES AND EQUIPMENT PRODUCED ON THE BASIS OF
SPECIALIZATION AND CO-OPERATION AGREEMENTS TO THE COMECON
AREA (WITHOUT CUBA, MONGOLIA, VIETNAM)

Exporting country	1976(1) (in million rubles)	in per cent	Percentage of overall export of machines and equipment within the COMECON area
Bulgaria	460	9.70	31.3
Hungary	772	16.28	50.0
GDR	1,463	30.85	40.4
Poland	673	14.20	26.6
Romania	184	3.88	30.7
USSR	434	9.15	8.0
CSSR	756	15.94	28.7
COMECON in total	4,742	100.00	29.3

- (1) No comparable data are available yet for later years.
However, it appears unlikely that there have been basic changes.