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ECONOMIC COMMITTEE

INTEGRATION IN THE COMECON: CURRENT SITUATION AND OUTLOOK

Note by the Secretary

Members of the Committee will find attached a study by the German Delegation. This study, which is intended as a contribution to the reinforced meeting of the Committee scheduled for the 21st-22nd February 1983, was prepared by Mr. R. Weichhardt during the period he spent in the International Staff Economic Directorate.

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SUMMARY

- (i) The problems generated by integration within the COMECON have recently become a matter of general interest. Internal economic difficulties and the new world economic situation have forced the COMECON countries to reconsider their definition of integration. This redefinition will be tackled at a summit meeting of Heads of Party and Government. Although this meeting has been under discussion for some time its exact date has yet to be fixed. This is probably due, in the main, to the differences of opinion in the COMECON countries over the aims of the summit and the expectations to which it will give rise. These divergencies will be hard to reconcile. Even the drawing up of a generally acceptable Agenda has raised a number of problems. Nevertheless, the need for integration is increasing all the time. Admittedly not even the most orthodox of member States intend to support a policy of COMECON self-sufficiency. On the other hand, the non-Soviet members of the Pact will be forced, (particularly as a result of their, in some cases, massive indebtedness to hard-currency countries) to cut back on trading with the West. For COMECON, the greatest potential for integration lies in the strengthening of scientific and technical co-operation in key sectors and in the development of direct relations between COMECON countries down to enterprise level.
- (ii) The future of COMECON integration, as advocated by the USSR, will hinge, first and foremost, on the principles governing policy-making. The principle of national interest, which is admittedly lacking in flexibility but which places emphasis on national sovereignty, will continue to be applied in the senior decision-making bodies. In contrast, the principle of majority-voting will be accepted in the COMECON's international economic organizations. This explains why the Soviet Union is also calling for reinforcement of direct relations between COMECON countries.
- (iii) Evidence is adduced to show that the monetary instruments of integration provided for in the "complex programme of economic integration" have often proved ineffective. It has not been possible to use the transferable rouble for traditional monetary purposes. Furthermore, the plan to provide an economic basis for the exchange rate and to achieve convertibility within the COMECON has proved unworkable. Such aims are not compatible with a planned economy and any progress towards integration in this sphere seems unlikely.

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- (iv) No headway on integration of any kind can be made without a concerted strategy on the division of labour (specialization and co-operation). Decisions based on the principle of cost-effectiveness and on generally-accepted evaluation criteria would be needed. The agreements on co-operation and specialization reached so far have failed to take these considerations into account. The inadequacies of the transport networks are, furthermore, an impediment to the division of labour within COMECON.
- (v) The economic crisis in Poland has demonstrated that integrated planned economies are incapable of coping with disruptions in sub-sectors: the aforementioned crisis has had extremely adverse effects on the other COMECON countries and this is particularly true of two areas. The breakdown in Polish deliveries has only been offset in part and then with great difficulty. In addition, Poland's partners have been compelled to provide economic aid although this has varied widely from one country to another. Repercussions on the internal supply (limited), particularly of consumer goods, have been felt almost immediately and have not been understood by the man in the street.
- (vi) The chances of implementing a COMECON "dynamic integration model" are limited. It cannot altogether be ruled out, however, that the new and difficult international economic situation will contribute to greater interdependence of the commercial policies of COMECON countries ("reactive integration model").

I. NEXT COMECON SUMMIT - A FURTHER MOVE TOWARDS INTEGRATION?

A. Purpose of the COMECON summit

1. According to certain sources, the COMECON summit meeting of Heads of Party and Government which has been expected for some time, will take place during the first half of 1983(1).

2. The purpose of this summit will be to redefine the methods of integration within COMECON in the light of economic problems at home and the new world economic situation. In this respect, it follows the pattern of previous meetings:

- The 16th (extraordinary) meeting of the COMECON Council (June 1962 in Moscow) at Heads of Parties and Government level adopted a document on the "basic principles of the division of international Socialist labour" which was intended to map out the broad outlines of COMECON integration. This basic document gave details of a long-term integration strategy based on an ambitious programme of co-operation and specialization in the production of the COMECON countries.
- At the 23rd (extraordinary) meeting of the COMECON Council (April 1969 in Moscow) - held again at the highest level - the COMECON experts were invited to prepare a second document on the future of COMECON integration. This led to the "complex programme for future co-operation and development in the context of the Socialist economic integration of COMECON member countries". The complex programme, which follows on the integration document drawn up in 1962 and adopted in 1971, is the most significant paper on this subject so far. A comparison between the aims of the programme and developments over the past decade will show that the leeway is still considerable. Certain of its aspects have proved unrealistic and non-sustainable and modifications are urgently required.

B. Background to the summit meeting

3. The idea of a summit meeting was first floated by Romania. Speaking at the 34th meeting of the COMECON Council (June 1980 in Prague), the then Romanian Premier, Mr. Verdet, asked that Romania be more closely associated with the

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(1) It is not altogether unlikely that the meeting will be postponed once again as a result of the Soviet Union's dilatory tactics.

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co-operation between COMECON countries in the field of raw materials and energy and that the problem of energy be discussed at a COMECON summit(1). According to Mr. Verdet, Romania had been refused such co-operation in the past. This is not borne out by the facts, but this dialectical manoeuvre enabled Romania, which was interested and still is interested mainly in the purchase of Soviet oil on the advantageous COMECON terms, to go over to the offensive.

4. Without naming the originator of the idea, Mr. Brezhnev also made a proposal for the organization of a COMECON summit conference at the 26th Congress of the Soviet CP (February 1981 in Moscow). The question of energy was not however mentioned explicitly. Mr. Brezhnev spoke in abstract terms of the extension of co-ordinated planning through the "harmonization of the economic policies of the COMECON States and the rapprochement of economic mechanisms as well as through the development of direct contacts between the Ministries, associations and enterprises involved in co-operative activities and the creation of joint enterprises"(2).

5. Mr. Brezhnev's arguments were subsequently taken up by the Party leaders of other COMECON States, and in particular by Mr. Honecker and Mr. Husak. Nevertheless, concrete initiatives have been lacking so far. Romania's request regarding energy policy has been pushed into the background. In his speech to the Central Committee of the Romanian Communist Party in November 1981, Mr. Ceausescu was sharply critical of this state of affairs and of the delay in convening the summit.

C. Reasons for not announcing the date of the meeting

6. The main reason for not announcing a definite date for the summit meeting is probably the difference of opinion in the various COMECON countries over its aims and the expectations it will generate:

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(1) Mr. Verdet referred to a proposal which had been made by Mr. Ceausescu in the Spring of 1980. Similar proposals relating to other areas of co-operation were made by Romania at subsequent meetings of the COMECON Council. At the Council meeting a year ago (8th-10th June 1981 in Budapest), Mr. Verdet's successor, Prime Minister Dascalescu even called for the organization of a second summit to discuss agricultural problems.

(2) "Neues Deutschland" dated 24th February 1981.

- As stated above, Romania would like to expand COMECON co-operation in the raw materials and energy sectors. However, it is neither in the Soviet Union's interests nor in the interests of the non-Soviet members of the Warsaw Pact to increase Romania's share of oil deliveries at COMECON prices. So far, Romania has not come up with any significant political concession to the USSR in exchange for such an increase. The non-Soviet members of the Warsaw Pact which have already had their Soviet oil deliveries reduced by 10% on average since 1982 are afraid that if Romania were to have a share of Soviet oil exports to the COMECON, this would be at their expense.
- Those COMECON States with few indigenous raw material resources would like to see a reform of the current price and currency system which has enabled the USSR to do extremely well out of the terms of trade, particularly during the second half of the Seventies. The USSR, while not denying that it benefited, has argued that it subsidises the non-Soviet member States extensively by supplying raw materials at prices below the prevailing world rates.
- The technologically-advanced GDR is calling for more cost-effective planning of the internal division of labour, an aim that has proved unrealistic with the means provided for in the complex programme. It has categorically refused to allow the centres of production to be transferred to those COMECON countries which have lagged behind, technologically speaking, in order to speed up their industrialization.
- It is probably in the Soviet Union's interests to alter the COMECON method of voting which is based on the principle of unanimity (or on the principle of national interest) by introducing the principle of majority voting. Such moves are not new. If adopted, they would provide the USSR with a formal guarantee of its position as the dominant power in the COMECON and simultaneously make considerable inroads into the sovereignty of the individual COMECON countries in matters of planning. Consequently, all such moves have so far been rejected out of hand by the non-Soviet member States and, first and foremost, by Romania which has refused to consider them in the COMECON senior decision-making bodies.

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- Over the past few years, the economic systems of the COMECON countries have developed along different lines. Hungary is the only country to have introduced economic reforms which mark a genuine shift away from the Socialist system (by adopting a number of features of the market economy system). The other COMECON countries have not so far dared to jettison certain principles of the planned economy in the interest of greater efficiency (with the exception, in a number of respects, of Bulgaria). This is a major obstacle to integration. It is not without significance that Mr. F. Havasi (Hungarian member of the Politburo and Secretary of the Central Committee for Economic Questions) recently called, at his briefing on the COMECON economic summit, for the creation of the best possible conditions for the co-ordination of divergent control mechanisms within the COMECON(1).

D. Need for integration

7. Despite the divergent interests referred to above, it is obvious that the COMECON countries are being driven increasingly, as a consequence of the new international economic situation, to co-operate more closely and, in particular, to step up their bilateral trade relations with the USSR.

8. The, sometimes involuntary, moves towards integration stem, in the first place, from the level of indebtedness, which in some cases is enormous, of most non-Soviet members of the Warsaw Pact towards the hard currency countries (particularly Poland, Romania, Hungary and the GDR). The considerable level of Western currency indebtedness is forcing the countries concerned to cut back on their imports. However, the situation in Poland has demonstrated that compensatory supplies from the COMECON and particularly from the USSR (above all of finished products) can only be very limited. It has thus become obvious to COMECON as well that a policy of systematic self-sufficiency is bound to fail. It has repeatedly been stated that the COMECON countries do not intend to "cut themselves off from mutually beneficial relations with the capitalist States"(2).

E. Potential for integration

(1) Harmonization of economic policies

9. Mr. Brezhnev's proposal that present co-ordination of planning be extended to include the "harmonization of all economic policies" is directed mainly towards the intensification

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(1) Nepszabadsag, dated 14th September 1982.

(2) "Neues Deutschland", dated 20th October 1982 (direct quotation from "Pravda").

of co-operation in key production sectors, particularly through "the joint elaboration by COMECON member countries and bodies of a long-term complex international programme for scientific and technical development"(1).

10. Hitherto, multilateral co-operation by COMECON countries in the scientific and technical fields has been based on five "programmes setting out co-operative plans up to 1990" and, in conjunction with those programmes, on "multilaterally harmonized measures for the integration of the COMECON States". Results are unlikely to have lived up to expectations and this would explain the recent move.

- In the programmes setting out the long-term aims which were adopted at the Council meetings in 1978 and 1979, co-operation was to cover the following sectors:

raw materials and fuel industry;

agriculture and the food industry;

mechanical engineering;

industrial consumer goods;

transport.

- The "multilaterally harmonized measures" for the five-year period 1976/80 comprised joint investments by the COMECON States mainly for the harnessing of Soviet raw material deposits and energy sources. About nine billion roubles were invested during the period under review. These funds were used for the following projects, inter alia:

cellulose factory at Ust-Ilimsk;

asbestos combine at Kijembajev (the initial construction phase was completed in 1979);

long-distance natural gas pipeline from Sojus (on-stream since 1979);

Winniza-Albertirsa overhead tension line (operational since 1979);

nickel combine in Cuba.

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(1) Chukanov, O.: RGW - Aktuelle Fragen der allseitigen Zusammenarbeit, published in "Horizont 1982" No. 37.

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11. The following, recently concluded, agreements will be important for future co-operation:

- multilateral government agreement in the electronic sector for the standardized production of radio-electronic, communications and computer equipment (signed at the 35th meeting of the COMECON Council held in July 1981 in Sofia).
- General agreement for co-operation in the production of microprocessors and industrial robots (signed at the 36th meeting of the COMECON Council held in June 1982 in Budapest).

(2) Strengthening of direct contacts

12. Mr. Brezhnev's call for the strengthening of direct relations between ministries, associations and enterprises means, in the opinion of COMECON experts(1), that there is very considerable scope for integration. The extent to which institutionalised co-operation within COMECON, particularly on production, can lead to any significant improvement in the division of labour will depend on the nature of the decisions to be taken: these should go beyond individual countries and cover the area as a whole but could be restricted by national considerations. Events so far suggest that the second alternative is more likely. Some flexibility should not, however, be ruled out (see Section II below).

13. For the present, direct relations are conducted on the basis of Chapter II, paragraph 8, of the complex programme which provides for direct co-operation within the framework of what are termed the COMECON's international organizations. These can be divided into the following groups (see more detailed table at Annex II):

- (1) Inter-governmental organizations dealing with economic or scientific and technical matters.
- (2) International economic organizations:
  - (a) International economic associations.
  - (b) Joint enterprises.
  - (c) International economic communities.

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(1) See for example O. Chikanov op. cit. and O. Bogomolov "Gebot der 80er" in "Neue Zeit", April 1982.

(3) International scientific and technical organizations:

(a) Joint laboratories.

(b) International centres.

(4) Other international organizations.

II. POLICY-MAKING IN COMECON - VOTING RULES

A. Senior decision-making bodies

14. The COMECON's senior decision-making bodies (Council, Executive Committee, other Committees, Standing Commissions, Secretariat) approve resolutions and recommendations(1). Recommendations can cover any aspect of scientific and technical co-operation on the one hand and economic co-operation on the other. They are addressed to member countries which may act on them if they wish. Recommendations and resolutions are only approved with the agreement of the member countries concerned. They cannot be binding on countries declaring that they are not concerned thereby(2). The principle of national interest and the principle of unanimity ensure that no COMECON country in a minority position is required to be a party to certain measures.

15. The principle of national interest means that national sovereignty ranks first and foremost and this makes for a slow voting procedure. The Soviet Union, more than any other country, has sought, on a number of occasions since COMECON was formed, to set up supranational decision-making organizations which would operate on the basis of majority voting. A Soviet initiative on this subject in the early Sixties will not have been forgotten. It was one of Krushchev's favourite ideas that COMECON should have a supranational planning authority. In November 1982, he invited the Central Committee of the Soviet CP to make a bolder approach to the creation of a common planning centre in which all member countries of COMECON would be represented. This planning centre was to bring together the officials responsible for overall planning and organization with a view to the co-ordination of the economic development of the Socialist system(3). The Soviet project came to nothing because of fierce resistance from Romania. It has not so far been possible to apply the principle of majority voting in COMECON's senior decision-making bodies.

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(1) Resolutions are concerned with matters of organization and procedure.

(2) See COMECON Rules and Procedures, Article IV, section 3.

(3) Pravda on 20th November 1962. See also A. Butenko "Economische Integration und nationale Souveränität" (Economic integration and national sovereignty), recently published in "Neue Zeit", No. 30, July 1982.

B. COMECON international economic organizations

16. The situation in the international economic organizations is different. Majority decisions are accepted, within certain limits, not only on administrative problems but also on matters of substance(1). Thus, the "delegation by countries of executive authority to the international organizations" has led to a "(certain flexibility in the application of the principle of sovereignty"(2). This is one of the main reasons why the USSR is keen to strengthen direct relations between COMECON countries. The rules and procedures for the "Interatominstrument", for example, only provide for a unanimous vote in the case of fundamental decisions. All other decisions may be adopted by a qualified majority (3/4). Similar rules and procedures are in force at the COMECON International Investment Bank.

17. With the introduction of a measure of flexibility in the principle of sovereignty, Romania has hesitated to return to the COMECON international organizations. Its refusal to endorse the creation of the "COMECON International Investment Bank" was widely reported. It only became associated with the Bank after provision had specifically been made for unanimous voting on basic decisions.

18. It could well be that in the longer term, application of the principle of sovereignty in the international economic organizations will become more restrictive. This possibility provides one of the explanations for Soviet interest in the strengthening of direct relations between the COMECON member countries. Note should be taken in this connection of the "common rules and regulations for the creation and running of international economic organizations" adopted by the COMECON Executive Committee(3) on 16th January 1976. These rules and

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(1) See V.H. Bruder and others, "Internationale economische Organisationen der RGW-Länder" (International economic organizations in the COMECON countries), Berlin (East) 1980, page 96.

(2) R. Steffens, "Integrationsprobleme im Rat für gegenseitige Wirtschaftshilfe (RGW)" (Problems of integration within COMECON), Hamburg 1974, page 45.

(3) "Institut für ausländisches Recht und Rechtsvergleichung an der Akademie für Staats- und Rechtswissenschaft der DDR" (Institute of Foreign and Comparative Law, Academy of Public Law of the GDR) (Publisher), "Wirtschaftliche und wissenschaftlich-technische Zusammenarbeit der RGW-Länder-Dokumente" (Economic, Scientific and Technical Co-operation in the COMECON Countries - documents), Berlin (East) 1981, pages 154 et seq.

regulations contain details, varying according to the type of organization, on the procedure for decision-taking particularly in the case of majority decisions. The application of these "uniform rules and regulations" was recommended to the COMECON countries and to Yugoslavia when new "international economic organizations" were created. The COMECON bodies were likewise instructed to apply these rules and regulations in connection with the constitution and running of the aforementioned organizations. The rules and regulations in question were not made compulsory immediately and will need to be incorporated into the basic documents of the different organizations but they are a fundamental aspect of integration within the COMECON in the context of direct relations (enterprises and so on).

III. MONETARY PROBLEMS CONNECTED WITH COMECON INTEGRATION

19. In the complex programme (Chapter II, paragraph 7), considerable emphasis is laid on a common monetary and price policy as an instrument of integration. In practice, this instrument has proved ineffective and has done little to foster integration. This conclusion is drawn, in the present instance, from a review of the most important single monetary policy goals of the complex programme. The extent to which these goals have been achieved and prospects for their achievement are discussed below.

A. Goals of the complex programme

20. These are:

- stabilization and strengthening of the transferable rouble as an international Socialist currency with a view to its use as:
  - \* a means of settlement (inter alia, in multi-lateral foreign trade);
  - \* a measure of value (stability of the gold-bullion standard, effectiveness of economic decisions in the foreign trade area);
  - \* a store of value;
- insensitivity of the transferable rouble to crises in the capitalist monetary system;
- in the longer term, integration of third countries into the transferable rouble zone;

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- fixing of exchange rates or economic coefficients for a COMECON national currency in relation to the other COMECON currencies and in relation to the transferable rouble; in 1980, decision on the application of a single rate to national currencies;
- drafting of rules governing the convertibility of one COMECON country currency in relation to the others and in relation to the transferable rouble.

B. Have these goals been achieved?

(1) The transferable rouble as an international Socialist currency

21. The part played by the transferable rouble as a means of settlement (used for banking purposes within COMECON but not with third countries) is limited in a number of respects:

- since it was first introduced on 1st January 1964, following the creation on 22nd October 1963, of the International Bank for Economic Co-operation, the transferable rouble has been used mainly for the financing of bilateral transactions within COMECON;
- with some exceptions, it has no multilateral function which would enable country A to use its trade surplus with country B to buy goods in country C. Transactions of this kind, in the framework of inter-COMECON trade, only cover goods which are free of quota restrictions, either volume or value-wise, i.e. goods which are non-essential or of little importance. In contrast, there are no multilateral transactions involving essential goods based on the transferable rouble. This is why no COMECON country has any interest in running a balance of payments surplus. In fact, therefore, the transferable rouble is an impediment to trade and is unsuited to performing the function of a store of value; in practice, a growing proportion of inter-bloc trade - and in the first place trade outside the Plan in essential goods - is conducted in dollar terms. Hungary, in particular, is attempting to sell its agricultural surplus to the other COMECON countries in exchange for hard Western currencies and by bypassing the transferable rouble. The following table shows the growing use of convertible currencies within the COMECON which must be read as signifying a certain elimination of the transferable rouble.

Turnover of the International Bank for Economic  
Co-operation in convertible roubles and in  
convertible currencies

(in billions of transferable roubles (TR))

Year	Turnover in convertible currencies, (this has been calculated in TR at the exchange rate fixed by the central authority)(1)		Proportion of turnover in convertible currencies in relation to the total turnover of the IBEC
	billions of TR	Index	%
1964	0.9	100	3
1965	2.0	222	6
1966	3.8	422	10
1967	9.0	1,000	19
1968	11.0	1,222	21
1969	13.7	1,522	24
1970	21.2	2,356	30
1971	23.6	2,622	30
1972	27.2	3,022	31
1973	35.8	3,978	34
1974	58.2	6,467	44
1975	63.1	7,011	40
1976	70.0	7,778	38
1977	79.2	8,800	36
1978	82.4	9,156	33

(1) The TR equivalents of turnover in convertible currencies include, inter alia, short and medium term deposits in Western hard currencies, financial transactions in convertible currencies with national banks and the COMECON national foreign trade banks as well as with central banks and foreign merchant banks, the allocation of medium-term financial credits to the Socialist country banks, the banks of the industrialized West and those of the developing countries.

Source: H. Buck, "Policy of the GDR and the European COMECON countries with regard to the balance of payments", Bonn, 1980.

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22. The East-West transactions included in the hard currency turnover only partly explain the increase in the latter. In actual fact, it is due to the increasing use of convertible currencies within the COMECON for financing purposes. So far, third countries do not appear to have been brought into the transferable rouble zone.

23. The transferable rouble cannot play the role of a measure of value in COMECON trade.

- The gold content of the transferable rouble, which has been fixed at 0.987412 grammes of gold since it was first introduced, is purely academic. No COMECON country is able to exchange its bank balances in transferable roubles for gold.

24. Since 1976 inter-bloc trade prices have been fixed in the light of a sliding average of representative world prices over the previous five years. These prices are only a starting point however. They are adjusted during the relevant bilateral negotiations depending on the position of the partners and the goods exchanged. They are also adjusted, in accordance with established rules, to take account of the cost of the transport factor. It is often difficult to find comparable goods, particularly in the case of finished goods, on the world markets.

25. The application of the (modified) world market prices makes it impossible to fix inter-bloc trade prices in the light of cost structures and of the shortages of goods specific to COMECON. This is why the transferable rouble cannot adequately reflect the "authentic" value of goods exchanged between COMECON countries.

26. These problems are familiar to COMECON. At its ninth meeting in Bucharest in 1958, the COMECON Council was already recommending examination of the possibility of fixing prices on the basis of data specific to the Organization. According to Marxist theory, prices should be based on the international Socialist theory of the value of labour. The application of Western economic theories has proved, however, that all these efforts are bound to fail. Marxist economic experts continue to persist however.

27. The price system applied within COMECON has enabled the USSR, over the past decade, to benefit extensively, in the form of improved terms of trade, at the expense of the non-Soviet members of the Warsaw Pact. This is partly due to the complementary structure of COMECON inter-bloc trade. The USSR

supplies raw materials to the other Warsaw Pact States in exchange for finished goods. Over the past decade, the upward trend in commodity prices has been steeper than the trend in finished goods. According to Western estimates, Soviet terms of trade on transaction with the other Warsaw Pact countries improved by about 40% between 1974 and 1980.

28. However, only part of these gains show on the Soviet side. A very substantial proportion is reflected in the unforeseen trade gap of the other Warsaw Pact States (excluding Romania)(1).

Trade deficits of non-Soviet Warsaw Pact members in relation to the USSR  
(millions of roubles)

	1976/80	1981	1982/I-IX	Total
Bulgaria	- 759.3	- 677.6	-301.1	-1,738.0
Hungary	- 675.9	- 6.3	- 10.6	- 692.8
Poland	-1,368.4	-1,710.5	-699.4	-3,778.3
GDR	-2,150.5	- 371.7	-317.4	-2,839.6
Czechoslovakia	- 565.1	- 275.0	-215.1	-1,055.2

(2) Exchange rate problems (for commercial transactions only)

29. The complex programme aim of of establishing exchange rates or coefficients based on economic data has not so far been achieved and there is little likelihood of success in the future. The current system for fixing exchange rates in the COMECON States take account, inter alia, of political considerations. There is frequent administrative interference and the economic logic is hard to grasp.

(3) Convertibility

30. In this connection, the aims of the complex programme have proved to be mere wishful thinking. COMECON currencies are convertible neither in inter-bloc nor in East-West trade (the only exception is in Hungary which is attempting to obtain part convertibility of the forint in East-West trade on the basis of realistic exchange rates). Within COMECON, even the

(1) In relation to the USSR, the Romanian trade balance shows a slight surplus.

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principle of convertibility is unthinkable. Not only would it be the monetary counterpart of multilateral trade, which is non-existent, as explained above, but it would also mean that country A could buy goods from country B in its own currency outside the Plan. The very idea is inconceivable in a planned economy.

IV. DIVISION OF LABOUR PROBLEMS WITHIN COMECON

A. Division of labour as a growth factor

31. The major problem currently facing the COMECON economies is the transition from extensive to intensive growth, a task which will represent a drain on all production reserves. According to Eastern economists, the scope for the division of labour within COMECON (in the form of specialization and co-operation) is far from exhausted.

32. The aims and instruments of the division of labour were described in great detail in Parts 4 and 10 bis of the "Complex Programme of Integration within COMECON". With astonishing frankness, the East has admitted that progress has been unsatisfactory in many respects. It is thus becoming clear that, given the reduction in resources and the deterioration in world economic conditions, COMECON has to achieve economic success.

B. Current difficulties(1)

(1) Essential aspects of the division of labour

33. Soviet economic experts recently revealed that little headway had been made in the way of specialized and co-operative production in the European COMECON countries. It was emphasized that the exchange of assemblies and spare parts, calling for series production at reduced costs, accounted for only a limited

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(1) A great deal of material is to be found both in the East and the West on substantive aspects of the division of labour in the COMECON planned economies but this cannot be discussed in detail in the present document. An extensive bibliography will be found, for example, in the "Journal of Comparative Economics". See also Chapter D on the current difficulties generated by the economic crisis in Poland.

proportion of specialized deliveries (in relation to the finished goods). The experts make no bones about quoting the example of the EEC where specialization is much more efficient(1).

(2) Co-operation based on capacity

34. K. Morgenstern(2), a GDR economic expert, in a remarkably critical essay, has deplored the fact that co-operation and specialization agreements are not often based on economic considerations, i.e. cost-effectiveness. The decisive criterion in a number of cases is capacity. It often happens that co-operative agreements are designed exclusively to build or enlarge productive plant in industrially-backward countries. No thought is given to the question whether an extension of the economic capacity of the donor country would be more advantageous. This is particularly true of the mechanical engineering and light industries.

35. Co-operative agreements based on capacity are not all plain sailing:

- experience is lacking;
- the volume of investment required is relatively large;
- the necessary supplies of materials and processing capacity is not always available in the partner's country.

Morgenstern even goes so far as to suggest that the more usual co-operative agreements should be governed by cost-effectiveness. The planners should identify the cases in which production in the donor countries would be preferable. In plain terms, this means that the GDR is demanding the return of certain sectors of production "which have fallen prey to specialization".

36. The tug-of-war between capacity-based co-operation and economically profitable co-operation produces a clash of targets, a clash which is already to be found in the "Complex Programme of Integration within COMECON". This programme

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- (1) See "Sozialismus: Ekonomische Entwicklung und gesellschaftlicher Fortschritt" (Socialism: Economic development and social progress) in: "Probleme des Friedens und des Sozialismus" (Problems of peace and Socialism) 1982/5. These papers are a summary of a colloquium of COMECON economic experts held in Prague this year and provide an analysis which is revealing, in many ways, of COMECON's economic problems both national and international.
- (2) K. Morgenstern, "Zur wachsenden Rolle der Sozialistischen internationalen Kooperation in Verbindung mit der Spezialisierung" (The growing role of international Socialist co-operation in specialization), published in "Wirtschaftswissenschaft" Berlin (East), 1982/1.

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provides simultaneously for progress in production and the "gradual rapprochement and adaptation of economic levels of development" in the COMECON countries(1). However, differences in the level of development can only be reduced through the industrialization of the technologically-backward COMECON countries; in other words, COMECON as a whole will have to accept productivity losses over a relatively long transitional period.

(3) Transport

37. Transport constitutes a major impediment to the division of labour within COMECON. The cost of transport as a proportion of total co-operative production costs is often too high. The system is also in need of technological improvement. A leading article on COMECON integration, recently published in Pravda(2) deplors the fact that most freight goes by rail and that cross-frontier capacity is not up to current requirements. In some cases wide-gauge track would have to be laid well into the territory of the USSR's partners. There is also an urgent need for the mechanization of handling operations and for the construction of warehouses.

V. REPERCUSSIONS OF THE POLISH CRISIS ON COMECON

A. Definition of the problem

38. The repercussions on COMECON of Poland's desperate economic plight are twofold:

- Poland is unable to meet (or can only partly meet) its commitments within the framework of the division of labour in COMECON;
- since the consolidation of the Polish economy is indispensable, if only for political reasons, the COMECON countries have no option but to help Poland. The volume of aid admittedly varies a great deal and the contributing countries have sometimes been at loggerheads over the allocation.

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(1) See Complex Programme, Part I.

(2) See "Die schöpferische Kraft der Einheit - die Länder des RGW: Kurs auf Vertiefung der sozialistischen ökonomischen Integration" (A force for unity - the COMECON countries: towards the strengthening of Socialist economic integration), published in "Neues Deutschland" of 20th October 1982.

B. Disruption of the division of labour within COMECON

39. Poland plays an important part in COMECON's bilateral and multilateral specialization and co-operation (inter alia in mechanical engineering and ship building, chemicals). It is also a major raw material supplier (coal, coke, zinc, sulphur, copper). About one fifth of Polish exports to COMECON come under the heading of specialized production and are ipso facto hard to replace. Poland's failure to honour its agreements has inevitably caused considerable disruption in the production activities of its partners where the implementation of national plans is being jeopardised. The fact that Poland's manufacturing base has been heavily dependent since the Seventies on Western technology makes it all the more difficult to replace her specialized exports. It is for these self-same reasons that greater integration of the Polish economy with the economies of the other COMECON countries, a move which has been repeatedly called for, does not seem feasible, at least in the short and medium term.

Another point worth noting is that Poland accepted substantial commitments with respect to COMECON joint investment projects (see Chapter I). It goes without saying that the breakdown in Polish deliveries is having a serious effect on the scheduled completion of those projects.

C. COMECON aid to Poland

(1) USSR

40. Since the wave of strikes at Gdansk in the Summer of 1980, Soviet aid to Poland (in the form of free services, advances on goods and credits) has totalled an equivalent of between US \$7.2 and US \$7.7 billion. This puts the Soviet Union far ahead of the other COMECON countries in terms of aid. The latter can be broken down as follows:

- advances on goods (converted into US dollars) of about \$5.2 billion which is on a par with Poland's trade gap with the USSR;
- aid in hard currencies, totalling between US \$2 and 2.5 billion. This figure includes a grant of US \$465 million made to Poland in 1981. Part of the hard currencies supplied by the USSR has been used to pay interest on Polish debts with Western creditors. Recent developments have none the less shown that the so-called umbrella theory (according to which the Soviet Union takes over the debts of its COMECON partners in an emergency) is a fallacy. The USSR is categorically refusing to act as guarantor.

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41. The Soviet Union often points out that it is supplying Poland with raw materials at preferential prices, calculated in terms of transferable roubles, and that in this way it is subsidising Poland. However, this argument is one-sided; Poland has repeatedly and justifiably replied that its deliveries to the USSR include a substantial proportion of blanks and intermediate goods bought on Western markets for hard currency and re-sold to the USSR, at equally preferential rates, likewise calculated in terms of the transferable rouble. It seems likely that the Soviet Union also provides net subsidies for the non-Warsaw Pact countries although, in the absence of statistics, the extent of these subsidies cannot be determined.

42. Another point to be noted is that Poland and the USSR are party to projects or agreements for the more intensive use of Polish plant (which in some cases is standing idle) through the delivery of Soviet productive equipment. Under one such co-operative agreement covering the footwear and textile industry, 85% of output goes to the USSR and 15% to Poland. This form of production which, at first sight, seems logical and into which other Warsaw Pact member countries could be drawn, is not as favourable as it would seem at first sight.

- (1) The difficulty of transferring the factors of production as between the strictly planned COMECON economies means that any solution to Poland's economic problem is blocked.
- (2) Poland could well be penalised by this situation. The Soviet Union has very considerable influence over decisions affecting management, production and sales in jointly-managed enterprises and this will be difficult to curb in the short and medium term.

(2) Other Warsaw Pact countries

43. Warsaw Pact countries other than the Soviet Union are far less able to provide effective help for Poland. The will to do so is sometimes wanting. During both 1981 and 1982, the countries concerned followed a policy of balanced bilateral trading. Shortfalls in Polish deliveries were offset by reductions in the scheduled supply of goods to that country. Emergency help was provided on a one-off basis and then only in cases of extreme need (following the declaration of the state

of emergency on 13th December 1981(1). As for hard currency credits, the only reliable information available relates to a GDR credit of \$US 125 million in 1980/1981.

D. Outlook

44. Economic aid to Poland by COMECON countries has probably passed its peak. The Soviet response to Polish appeals increasingly takes the form of admonitions. Poland has been told to find its own solutions to its economic problems. Attention has also been drawn to the limited means available to the Soviet Union (e.g. during the Brezhnev/Jaruzelski meeting in the Crimea on 16th August 1982).

- The USSR will continue to exert pressure on the other Warsaw Pact members to provide Poland with more effective aid. It can argue that the standard of living in some of those countries (e.g. GDR and Hungary) is higher than its own. However, the outlook is unpromising and the circumstances of the crisis, being what they are, may give rise to prolonged recriminations. It has been extremely hard to persuade the generally well-informed inhabitants of the other Warsaw Pact countries, of Poland's need for aid. Even modest efforts have had rapid repercussions on the supply situation in the donor country and the leadership is wary of possible threats to internal stability, both economic and political.

VI. CONCLUSION

45. The opportunities for greater COMECON integration based on (multilateral) action by all those concerned (dynamic integration model) are limited. It is, however, true that there is no consolidated (and coherent) strategy and that this has not even been formulated.

46. The aims of the Complex Programme for Integration within COMECON are unrealistic. There is undoubtedly scope for genuine integration (first and foremost through the development of direct relations between the COMECON countries) but the necessary means of achieving it do not exist. There is clear evidence, in this connection, that the instruments of monetary policy and the price mechanism outlined in the Complex Programme have failed to work.

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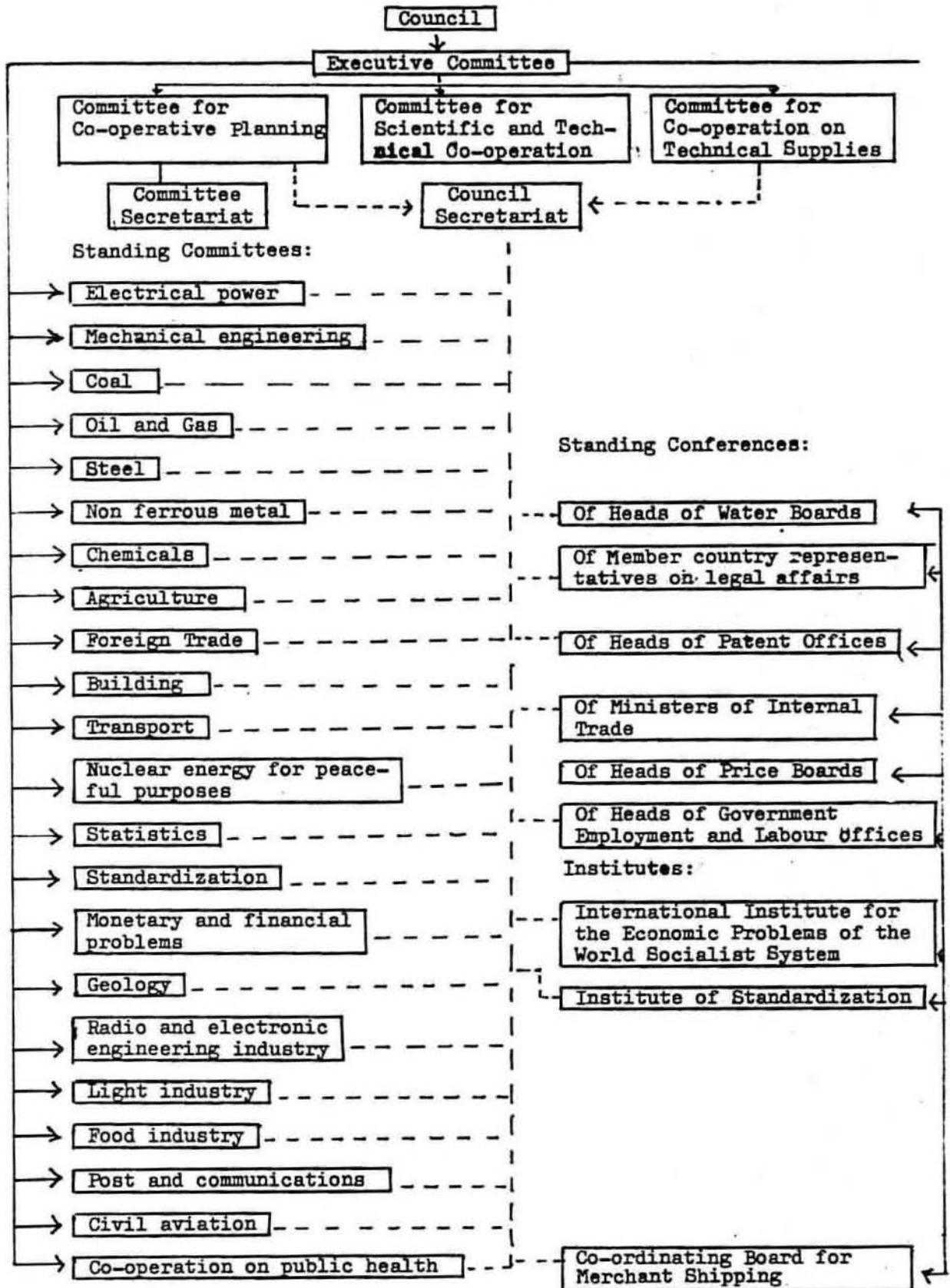
(1) See F.L. Altmann "Auswirkungen der polnischen Wirtschaftskrise auf die sozialistischen Staaten Sudosteuropas" (Repercussions of the Polish economic crisis on the Socialist countries of South-East Europe) published in "Sudost-Europa", 31.10.1982.

47. A COMECON summit conference is unlikely to be able to come up with a strategy of dynamic integration for the Eighties. A strategy of this kind would have to take account of the national interests of member countries, which are divergent in many respects, and would be doomed to failure. Some of the countries involved have no wish to sacrifice their national interests. The current method of policy-formulation within the COMECON fosters this attitude. It will be interesting to see, however, whether and to what extent the introduction of majority decisions will have practical and significant effects.

48. Despite the limited chances of dynamic integration, the possibility of greater economic interdependence between COMECON countries in the years ahead should not be ruled out altogether. It must be remembered that freedom of manoeuvre in dealing with the industrialized West has been sharply curtailed as a result of the COMECON countries' high level of convertible currency indebtedness and of the international recession. This could prompt a return to foreign trading which is confined to the economic bloc itself (model of reactive integration). A solution of this kind, integration in name only, would be feasible only to a certain extent, as witness the case in Poland. Even in theory it is doubtful moreover whether a model of reactive integration could provide the COMECON with a firm foundation for its fundamental economic policies.

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COMECON Structure



List of International Economic, Scientific and Technical  
Organizations of the COMECON Countries(1)(2)

I. Intergovernmental economic, scientific and technical organizations

(a) Special COMECON Organizations

Name	Date Founded	Member Countries	Headquarters	Co-operative agreement with	
				COMECON	Non-member countries and other inter- national organiz- ations
1.	25.7.62	BG, H, GDR, PL, R, SU, CZ	Prague	1. Proto- col dated 6.1.71	2. Exch- ange of letters dated 12.5.72
2. International Bank for Economic Co-operation	22.10.63 (Amending protocol dated 18.12.70)	BG, H, VN, (1977) GDR, C (1974), MO, PL, R, SU, CZ	Moscow	1. Proto- col dated 20.7.70	Agreement with the Inter- national Investment Bank dated 26.7.71
3. Common Wagon Pool	21.12.63	BG, H, GDR, PL, R, SU, CZ	Prague	1. Proto- col dated 22.2.71	2. Agree- ment dated 6.5.72
4. Organization for co-operation in the ball bearings industry	25.4.64	BG, H, GDR, PL, R(12.10.71) SU(30.3.65) CZ, YU(early 1976)	Warsaw	1. Proto- col dated 27.7.70	2. Exchange of letters dated 15.5.72

\* See Page 9

(1) Grunddokument des RGW, Berlin Ost 1978 (Basic COMECON documents, East Berlin 1978)

(2) Certain organizations also include non-member countries.

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5. "Intermetal", organization for metals co-operation	15.7.64	BG(Jan 1965) H, GDR(end 1964) PL, SU(end 1964) CZ	Budapest	1. Proto- col dated 9.7.70 2. Exch- ange of letters dated 11.5.72	1. Agree- ment with the Associ- ation of Yugoslav Metal Enter- prises dated 29.11.68 2. Agree- ment with Romanian foreign trade enterprise "Metalimport" dated 3.2.70
6. International Centre for Scientific and Technical Information	27.2.69	BG, H, GDR, C(1973) MO, PL, R, SU, CZ	Moscow	1. Proto- col dated 6.5.72 2. Exchange of letters dated 8.7.64	
7. "Interkhim", international organization for co-operation on small tonnage chemicals	17.7.69	BG, H, GDR, PL, R(6.4.71) SU, CZ, YU(1973)	Halle (GDR)	Protocol dated 17.5.72	Agreement with Inter- national Investment Bank dated 9.1.73
8. Government commission on socialist country co-operation in the field of computer science	23.12.69	BG, H, GDR, C(Dec 1972) PL, R(Dec 1973) SU, CZ	Moscow	Protocol dated 26.5.72	
9. International Investment Bank	10.7.70	BG, H, VN, (1977), GDR, C, (1974), MO, PL, R, (1971), SU, CZ	Moscow	Protocol dated 6.5.72	1. Co- operative agreement with YU dated 26.4.74 2. Agreement with IBEC dated 26.7.71

					3. Agreement with Interchim dated 9.1.73
					4. Agreement with Inter-electro dated 14.8.75
					5. Agreement with Inter-texilmach dated 14.8.75
10. "Agromash" International organization for the co-ordinated development and production of machinery for fruit, vegetable and wine cultivation	16.12.64 (Amending protocol dated 20.4.73)	BG, H, GDR (1.1.73) PL(1.1.77) SU(28.5.69)	Budapest	Protocol dated 21.11.74	
11. "Interelectro" international organization for economic, scientific and technical co-operation in the electronics industry	13.12.73	BG, H, GDR, PL, R, SU, CZ, YU (Oct. 1975)	Moscow	Protocol dated 22.1.75	1. Protocol with the International Investment Bank dated 14.8.75 2. Protocol with the Inter-electrotest Council dated 12.12.75
12. Council for the joint use of containers in international traffic	29.6.74	BG, H, DDR, C, MO, PL, R, SU, CZ	Bucharest	Protocol dated 23.7.75	

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(b) Other intergovernmental economic, scientific or technical organizations

Name	Date Founded	Member Countries	Headquarters	Co-operation agreement with COMECON
1. Combined Institute for Nuclear Research	26.3.56	AL(5), BG, H, VN(20.9.56) (SU), GDR, RC(5), NC, C, MO, PL, R, SU, CZ	Dubna	Protocol dated 27.10.71
2. Organization for railway co-operation	28.6.56	AL(6), BG, H, VN, DDR, RC, MC, NC, C(1966), MO, PL, R, SU, CZ	Warsaw	Agreement dated 16.10.62
3. Organization for co-operation in postal and telecommunications services	16.12.57	AL, BG, H, VN, DDR, RC, NC, C(1965), MO, PL, R, SU, CZ	Warsaw	
4. Intersputnik telecommunications space organization	15.11.71	BG, H, C, MO, PL, R, SU, CZ	Moscow	Protocol dated 31.8.76
5. International management research institute	9.7.77	BG, H, C, MO, PL, SU, CZ	Moscow	

II. International economic organizations

(a) International economic associations

Name	Date Founded	Member Countries(7)	Headquarters	Co-operation agreement with COMECON
1. International economic association for manufacture of nuclear engineering instruments (Inter-atominstrument)	22.2.72	BG, H, C, SU, CZ	Warsaw, with branches at Zielona Góra (PL), Dubna (SU), Pleven (BG)	Protocol dated 21.1.75

- (5) Neither the People's Republic of Albania nor the People's Republic of China currently contribute to the activities of the Combined Institute for Nuclear Research.
- (6) At present the Albanian People's Republic is taking no part in the organization for railway co-operation.
- (7) The members are economic organizations from the countries mentioned.

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2. International economic organization in the photochemical sector (Assofoto)	15.6.73	DDR, SU	Moscow	
3. International economic organization for port management	28.11.73	DDR, PL	Szczecin (PL)	
4. International economic association for textile machinery production (Inter-textilmash)	13.12.73	BG, H, DDR, PL, R, SU, CZ(8)	Moscow	Protocol dated 31.12.74
5. International economic association for nuclear power station equipment production (Inter-atomenergo)	13.12.73	BG, H, DDR, PL, R, SU, CZ, YU	Moscow	Protocol dated 1.4.75
6. International economic association for synthetic fibre production (Inter-khimvolokno)	21.6.74	BG, H, DDR, PL, R, SU, CZ, YU	Bucharest	Protocol dated 29.4.75
7. International economic association for domestic chemical products (Domokhim)	18.9.74	DDR, SU	Moscow	

(b) Joint undertakings

Name	Date Founded	Member Countries(?)	Headquarters
1. Haldex (Polish-Hungarian public company)	16.4.59 (supplementary protocol dated 20.11.71)	H, PL	Katowice (PL)

(8) Yugoslav economic organizations are co-operating within the Inter-textilmash framework on the basis of a special agreement.

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2. Intransmash (Bulgarian- Hungarian company)	16.12.64 (Amending protocol dated 15.9.73)	BG, H	Sofia, with a branch in Budapest
3. Cotton mill at Zawiercie, a joint Polish/East German undertaking	12.6.72	DDR, PL	Zawiercie (PL)
4. Mongolsovtsvetmet (joint Mongolian- Soviet association)	24.2.73	MO, SU	Ulan-Bator
5. Erdenet joint mining and mineral dressing combine	22.11.73	MO, SU	Erdenet (MO)

(c) International economic communities(9)

Name	Date Founded	Member Countries(7)	Headquarters	Co-operation Agreements
1. Medunion, an association of undertakings in socialist countries manufacturing medical equipment	20.3.66 (Amending agreement dated 24.5.74)	H, DDR, PL, SU, CZ	Budapest	
2. Inter- etalonpribor, an international scientific production association for high-precision equipment	23.11.72	BG, DDR, MO, PL, R, SU, CZ	Moscow	Agreement with COMECON dated 30.4.75
3. Interkomponent an organization to co-ordinate production plans in the electronics and electrical industry	26.2.73	H, PL	Warsaw	

(9) International economic organizations (associations) which lack the rights attaching to a legal person.

4. Interelektro- test, an inter- national economic association for testing high-current and high-voltage installations	16.10.73	BG, H, DDR, PL, R, SU, CZ, YU	Prague	Agreement with Interelektro dated 12.12.75
5. Elektro- instrument	25.12.75	BG, SU	Moscow	
6. Intervodoo- chistka, an international economic association for water purification	14.4.77	BG, H, DDR, PL, R, SU, CZ	Sofia	

III. International scientific or technical organizations(10)(11)

(a) Joint laboratories

Name	Date Founded	Member Countries(12)	Headquarters
1. International laboratory for high-intensity magnetic fields and low temperatures	11.5.68	BG, DDR, PL, SU	Wroclaw (PL)
2. Joint laboratory for borehole flushing and casing	17.3.75	BG, H, DDR, PL, R, SU, CZ	Cimpina (R)

(b) International centres

Name	Date Founded	Member Countries(12)	Headquarters
1. Stefan Banach international mathematical centre for further training of scientific staff	13.1.72	BG, H, DDR, PL, R, SU, CZ	Warsaw

(10) Insofar as they are now shown in Part I as inter-governmental organizations or in Part II as scientific production organizations.

(11) There are also 52 co-ordination centres attached to national scientific departments (position at 15th October 1976) as well as temporary international research groups.

(12) The members are the Academies of Sciences of the countries mentioned.

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2. International centre for further training of scientific staff in heat and mass transfer	21.11.73	SU (Byelorussian Republic), BG, H, DDR, MO, PL, CZ	Minsk (SU)
3. International Centre for further training of scientific staff in electron microscopy	17.3.75	BG, H, DDR, PL, SU, CZ	Halle (DDR)

Other international organizations

Name	Date Founded	Member Countries	Headquarters	Co-operation Agreement
1. International association of sea transport companies	27.6.70	BG, H, DDR India C(Oct 1972) PL, SU, CZ, YU(13)	Gdynia (PL)	Protocol dated 19.5.71 on co-operation in consultation for the benefit of merchant shipping organizations and sea transport companies in COMECON member countries
2. International Geological expedition to Mongolia	3.6.75	BG, H, DDR, C, MO, PL, R, SU, CZ	Ulan-Bator	

(13) The members are the sea transport companies of the countries mentioned.

The abbreviations for parent countries of organizations (listed below) are generally the same as the international identification letters for motor vehicles:

Bulgarian People's Republic =	BG
Albanian People's Republic =	AL
Chinese People's Republic =	RC
Korean Democratic People's Republic =	NC
Republic of Cuba =	C
Hungarian People's Republic =	H
Mongolian People's Republic =	MO
Polish People's Republic =	PL
German Democratic Republic =	DDR
Rumanian Socialist Republic =	R
Union of Soviet Socialist Republics =	SU
Czechoslovak Socialist Republic =	CZ
Vietnamese Democratic Republic =	VN
Yugoslav Federal Socialist Republic =	YU

AREAS OF ACTIVITY OF JOINT ENTERPRISES

Haldex:

Joint Polish-Hungarian enterprise (in the form of a public company with both partners having equal shares). Haldex is engaged in the production of coal from spoil and uses processed spoil for the building materials and ceramics industries. Production is based on special technologies developed by the participating countries. Haldex supplies practically the whole of the ceramics industry of both countries.

Intransmash:

Bulgarian-Hungarian enterprise (the GDR and the USSR joined later). Main activities: development of production of transport for use inside the factory (including hoisting and handling techniques).

Zawiercie:

Joint GDR Polish enterprise (in which both partners have equal number of shares) for the production of cotton yarn; yearly capacity tops 12,000 tonnes.

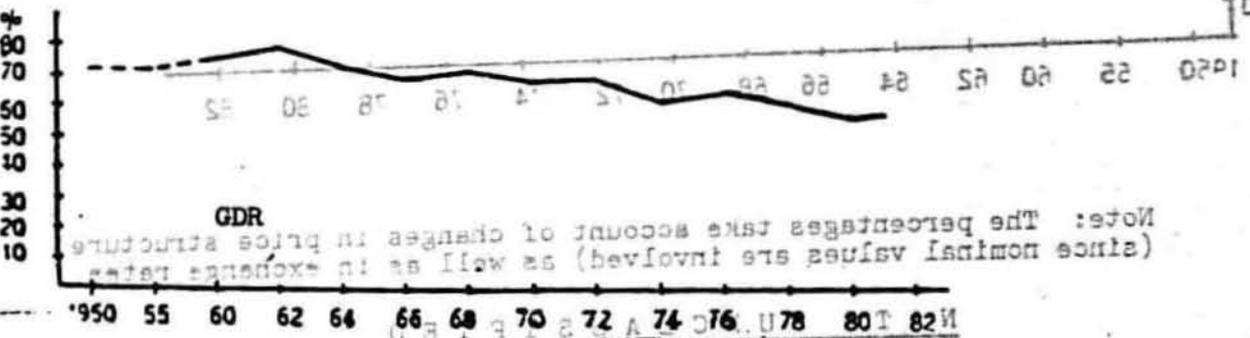
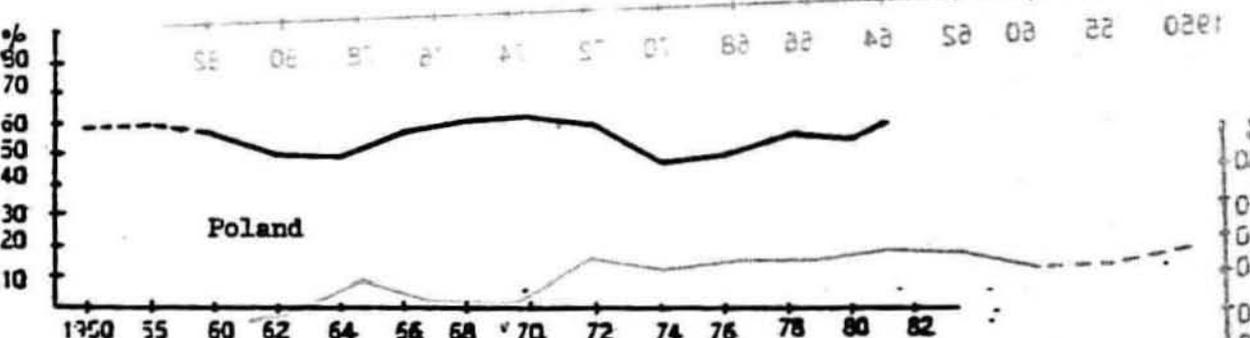
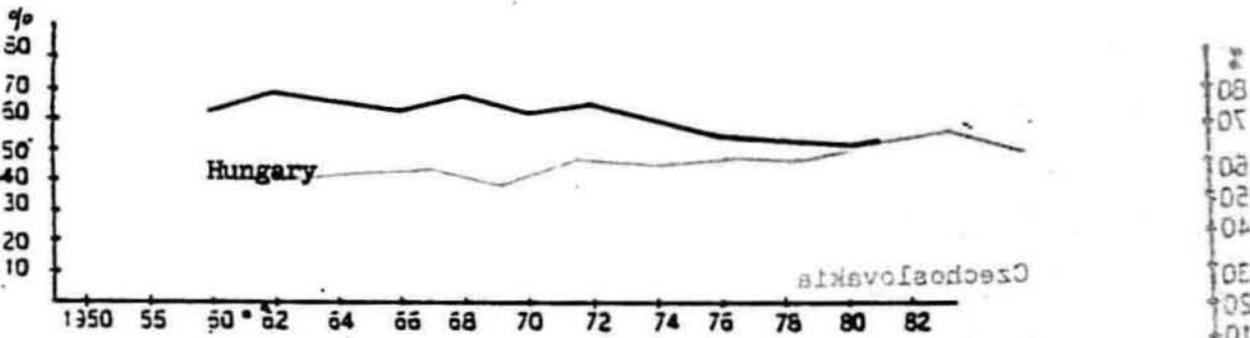
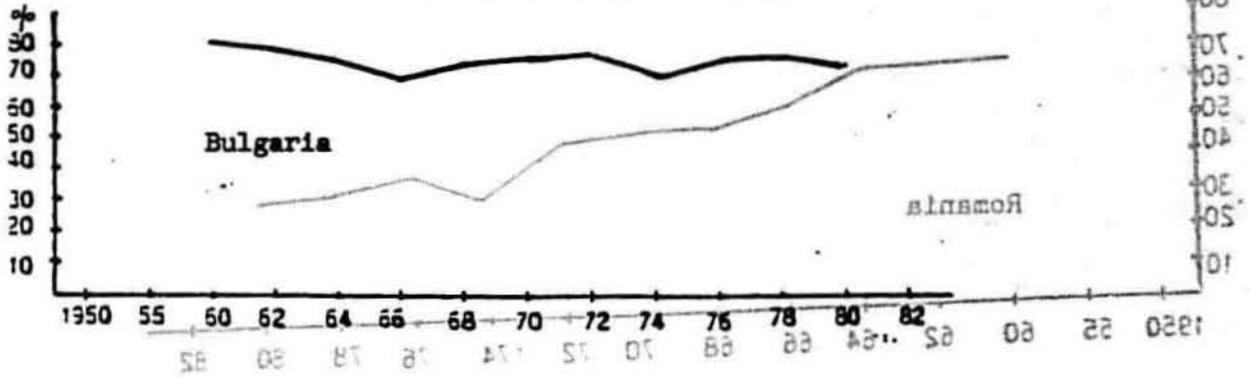
Mongolsovtsvetmet:

Joint Soviet-Mongolian enterprise which deals with heavy non-ferrous metals in the People's Republic of Mongolia.

Erdenet:

Joint Mongolian-Soviet enterprise for the extraction and processing of copper-molybdenum ore in Northern Mongolia (based at Erdenet). The ore deposits there are the largest in Asia.

COMECON TRADE TURNOVER AS A PORTION OF  
OVERALL EXTERNAL TRADE (ACCORDING  
TO OFFICIAL COMECON STATISTICS)



Note: The percentages take account of changes in price structure (since nominal values are involved) as well as in exchange rates.

