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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

REVIEW OF THE ECONOMIC SITUATION AND TRADE POLICY OF:

H U N G A R Y

Draft Summary Report to the Committee of Economic
Advisers

Note by the Chairman

As instructed by the Sub-Committee (2), the International Staff has prepared the attached Draft Summary Report on the discussion of the Hungarian economy for the Committee of Economic Advisers which might wish to send a report of this kind to the Council.

2. This draft will be put on the Agenda of the next meeting of the Sub-Committee on 24th of June, 1965.

(Signed) A. VINCENT

OTAN/NATO
Paris, XVIe.

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- (1) For the French text, see AC/89-WP/163 and Corrigendum.
(2) AC/89-R/67

NATO CONFIDENTIAL

REVIEW OF THE ECONOMIC SITUATION AND TRADE POLICY OF :
H U N G A R Y

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

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

2. The attached summary report attempts to survey the present economic situation in Hungary, to assess future trends, in particular as regards foreign trade, and to arrive at a certain number of conclusions.

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- (1) The following countries have so far been examined; Rumania on 6th November, 1964 - see C-M(65)18; Czechoslovakia on 11th February, 1965 see C-M(65)41; Poland on 25th February, 1965 - see C-M(65)42; and the Soviet-occupied Zone of Germany on 29th April, 1965 - see AC/89-WP/159.
- (2) See AC/89-WP/158 and Comments by the German Delegation (AC/89-WP/158/1).

REVIEW OF THE ECONOMIC SITUATION AND TRADE POLICY OF

H U N G A R Y

Report by the Sub-Committee on Soviet Economic Policy

A. INTERNAL ECONOMIC SITUATION

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

2. The Kadar régime, installed by the Soviet Union after the 1956 Revolution, has succeeded in providing a certain economic stability and in winning the support of a large part of the population, mainly owing to its "nationalist" deportment and the personal appeal of its leader. The population is easy-going and seems to manage to live better than that of richer countries such as Czechoslovakia. Though Kadar seems to have managed to emancipate himself somewhat from the grip of the Soviet Union after the fall of Khrushchev, Hungary remains very dependent economically, politically and militarily on the USSR which still has 50,000 troops in the country.

3. During the last few years, industrial production has risen at the comparatively high average annual rate of 8.5%, i.e. at about the same rate as in Poland and in the Soviet Union, but more slowly than in the less-developed Eastern European countries, Rumania and Bulgaria. However, future targets are much lower (4.5% in 1965) as the régime seems more concerned with raising the quality rather than the quantity of output. Such a policy, however, requires large investments, new technology, a skilled labour force and a less bureaucratic management. Should it succeed, some manpower would be released but the lack of sufficient skilled labour would be increasingly felt.

4. Although the share of agriculture in total investments is much higher than in other countries of the region, and in some Western countries at a comparable level of development, agricultural output has made slow progress. The private plots of the collective farmers cover only 15% of the arable land, yet they account for 25% of agricultural production. As the latter, especially livestock breeding, is of the utmost importance as an earner of hard currency, the régime has recently altered its hostile attitude towards the ownership of private plots by collective farmers; it has also in-

troduced a number of incentive schemes. These usually involve some sort of share cropping, the farmers being rewarded in accordance with the results achieved on the particular collectivized land on which they are working.

B. FOREIGN ECONOMIC RELATIONS

5. Owing to its lack of natural resources, and small home market, Hungary is heavily dependent on foreign trade; after Bulgaria, it has the highest share of imports in the Gross National Product (13.4%) of any Eastern European country. Hungarian foreign trade rose from \$1.2 billion in 1955 to \$2.8 billion in 1964. This is equivalent to an annual average rate of 11%, a record matched only by Rumania in recent years. The share of Communist countries in Hungary's trade has remained at close to 70% during the last 5 years, whereas that of the Soviet Union has grown from 30% to 34% and that of NATO countries from 12.9 to 15.3% by 1963.

6. Hungary depends on the Soviet Union for the supply of nearly all her raw materials. A long-term agreement provides for the export of about half of Hungary's basic production to the USSR, Czechoslovakia and the Soviet-occupied Zone for processing. Though somewhat disappointed by the progress of the division of labour within COMECON, Hungary is a faithful member of this organization; it is linked to the COMECON pipeline, electric power grid, and wagon pool, as well as to the newly established organization INTERMETALL, a kind of steel community with its headquarters in Budapest.

7. Hungary's trade with the West has developed less rapidly than its overall trade, but trade with NATO countries alone has grown faster than trade with all other regions, including the Soviet Union. The greatest obstacle to a further expansion arises from the difficulties encountered by Hungary in increasing its exports. The accumulated trade deficit with the West amounts already to about \$150 million and is continuously increasing. To settle this deficit, Hungary will have to expand considerably its exports to Western industrialized countries.

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

- the country's heavy dependence on the Soviet Union, among others as a supplier of raw materials, and a market for its manufactured products;
- the fact that 60% of Hungary's exports to Western industrialized countries are composed of agricultural products, a market that is being made more difficult to enter by the new arrangements of the EEC;

- Hungary's difficulty in offering manufactured goods for export to Western markets at competitive prices;
- Hungary's limited capacity to ensure the servicing and repayment of credits, given the heavy deficit in the balance of payments;
- the difficulty which Hungary is likely to encounter in obtaining a reduction of quantitative and tariff restrictions to its exports, given the inability of a country with a state trading system to offer corresponding benefits to its trading partners.

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

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

C. CONCLUSIONS

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

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

- though highly dependent on the Soviet Union as a supplier of fuel, raw materials, electric energy and military equipment, Hungary, in order to modernize its industry, wishes to avail itself of all the advantages which trade exchanges with the West provide; it seems prepared to study new forms of co-operation with Western firms and to send

students and technicians to the West to study technical progress; it is, however, careful not to run the risk of possible Soviet countermeasures, the memory of which is still very much alive in the country;

- though the chances of dissociating Hungary from the Soviet Union do not seem very great in the near future, especially as Soviet troops are stationed in the country, the West should continue, in particular through closer economic relations, to help Hungary in asserting its own national interests; Western countries should take such steps as they feel appropriate with a view to expanding trade with Hungary, in particular facilitating the access of Hungarian products to Western markets without damaging the legitimate commercial interests of other countries, especially those of the free world which are still in the course of development; the setting up of joint enterprises, the extension of scholarships and other forms of technical assistance should be encouraged: the possibility of establishing relations between Hungary and such international organizations as GATT and the EEC should also be explored. Western countries should maintain an economic policy flexible enough to be able to take advantage of the opportunities that developments in Hungarian foreign economic relations might offer and for this purpose should follow closely such developments.