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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

REVIEW OF THE ECONOMIC SITUATION AND TRADE POLICY OF BULGARIA

Draft Report to the Committee of Economic Advisers

Note by the Chairman

As instructed by the Sub-Committee(1) the Economic Directorate has prepared the attached draft summary report on the discussion of the Bulgarian economy for the Committee of Economic Advisers, which after examining it might wish to forward it to the Council.

2. This draft will be put on the Agenda of the next meeting of the Sub-Committee to be held on 9th September, 1965.

(Signed) A. VINCENT

OTAN/NATO,
Paris, XVIe.

(1) AC/89-R/70

NATO CONFIDENTIAL

REVIEW OF THE ECONOMIC SITUATION AND TRADE POLICY OF BULGARIA

Draft Report to the Committee of Economic Advisers

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

1. The sixth examining session on economic developments in the Eastern European countries(1), held on 2nd July, 1965, was devoted to Bulgaria. The discussion was based on a report prepared by the German Delegation(2), and introduced by its author, an expert from the German Ministry of Economics. The meeting was also attended by an Economic Counsellor from the United States Legation in Sofia and by a Deputy Director from the French Ministry of Foreign Affairs(3).

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

(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;
the Soviet-occupied Zone of Germany, on 29th April, 1965 -
see C-M(65)63;
Hungary, on 24th May, 1965 - see C-M(65)57:

(2) See AC/89-WP/164 and comments by the United Kingdom Delegation (AC/89-WP/164/1);

(3) For a complete record of the meeting, see AC/89-D/49.

REVIEW OF THE ECONOMIC SITUATION AND TRADE POLICY OF BULGARIAA. INTERNAL SITUATION

1. Bulgaria is one of the smallest of the Eastern European countries, with a population of little more than eight million and a territory of 110,900 square kilometres. The country is separated from the Soviet Union by Rumania, but has common borders with two NATO countries, Turkey and Greece, and also with Yugoslavia. With a per capita gross national product about half that of the Soviet Union and approximately the same as that of Rumania, it is one of the least developed of the European Communist countries. Its mineral resources, although adequate to contribute usefully to the country's further industrial development are insufficient to export on any significant scale. Agriculture, however, enjoys the advantages of excellent soil and climatic conditions.

2. The economy has expanded quite rapidly in recent years. During the first four years of the Five Year Plan for 1961-1965 the net material product rose at an annual average rate of 5.8% according to the official Bulgarian statistics. The validity of this figure, however, is open to doubt. Western specialists have estimated the growth rate of the Bulgarian gross national product during this period at about 4% a year. Many of the targets of the current Five Year Plan are unrealistic. It is thought that the Plan for 1966-1970, at present in preparation, will be less ambitious and will allow for some shift of emphasis away from heavy industry, which has hitherto received the lion's share of investment resources, and in favour of the consumer goods industries.

3. Industry has shown itself the most dynamic sector of the economy. The only figures available are those published by the Bulgarians themselves, according to which the annual average rate of growth during 1961-1964 was 11%. This is somewhat lower than the planned figure, but even when allowance is made for some element of exaggeration in the official statistics, it would appear that in Bulgaria's small and backward economy the somewhat crude methods of centralised planning hitherto employed have yielded fairly satisfactory results. However, there has been a number of economic experiments, and in some industries a new and more flexible system of planning and management is now being introduced under which the individual enterprises are permitted a limited degree of initiative and are encouraged to maximise their profits. This should permit a more efficient use of resources and help to maintain a rapid rate of growth. On the other hand, in the future industry will not be able to continue to draw upon reserves of unemployed rural labour to the same extent as in the past. Furthermore, the reallocation of resources in favour of light industry, which the régime now appears to envisage, may entail a fall in the rate of investment. On balance therefore some deceleration in the rate of growth seems likely in the future.

4. Bulgaria was the first Eastern European country to complete the collectivisation of agriculture (1956). Collective and State farms now cover 88% of all arable land. The private plots of collective farmers and State employees account for nearly 11% while less than 1% is occupied by individual peasants. In the last three years a number of incentives have been offered to the farmers. The prices of agricultural products have been increased, whilst the prices paid by the farmers for fertilizer, fuel and building materials have been reduced. Collective farmers have been granted minimum wages, and the cultivation of private plots is now encouraged. Agriculture is of great importance to the economy. It accounts for over 30% of the net material product, according to the official statistics, and agricultural products (fruit, vegetables, processed food stuffs and tobacco) are the principal source of the country's export earnings. During the years 1961-1964 agricultural production is claimed to have risen at an annual average rate of 2.8% which may be considered fairly satisfactory although it is considerably below the rate scheduled in the Five Year Plan.

B. FOREIGN ECONOMIC RELATIONS

5. The Bulgarian economy is more dependent on foreign trade than are those of the other Eastern European countries. Imports amount to about 17% of the estimated gross national product, compared, for instance, to about 8% in the case of Rumania. Since 1955 Bulgarian foreign trade turnover has risen more than 4-fold, i.e. at an annual average rate of 17%. During this period the share of the Soviet Union in Bulgarian total foreign trade has remained more or less constant at around 50%, although the share of the other Communist countries has fallen from 41% in 1955 to 25% in 1964.

6. The economy's heavy dependence on the Soviet Union is one of its salient features. More than 50% of raw material supplies are of Soviet origin and Soviet deliveries of equipment and spare parts are of vital importance to various key industries. The entire ferrous metallurgical industry, 70% of non-ferrous metallurgy, 50% of the chemical industry and 50% of the country's power stations are operating with Soviet-produced equipment. Virtually all arms and equipment supplied to the Bulgarian armed forces are of Soviet origin. Bulgaria has also received substantial economic aid from the Soviet Union - 1100 million dollars since 1945, which on a per capita basis is far more than has been received by any other Communist country. A further 510 million dollars were promised in 1964 for the development of Bulgaria's industry.

7. Bulgaria's economic and military dependence on the Soviet Union enables the latter country to exert considerable influence upon Bulgarian economic policy. Thus Bulgaria has not followed the example of Rumania in resisting plans for integration within COMECON, but on the contrary appears to have co-operated actively in the implementation of such plans. In fact Bulgaria derives considerable benefits from its membership of COMECON. By means of long-term agreements with other member countries it is assured of outlets for many products for which it would have considerable difficulty in finding alternative markets in the West.

8. In recent years trade with the non-Communist countries has developed very rapidly, having risen nearly 9-fold since 1955. Even so it still accounts for only 22% of total Bulgarian foreign trade. Within this group of countries trade with the developing nations has shown the fastest rate of growth. Nevertheless, although the volume of such trade has increased 12-fold since 1955 it still amounts to only 5% of total Bulgarian foreign trade. Trade with NATO countries amounts to 13% and trade with the other industrialised nations of the free world to 4% of total Bulgarian foreign trade. In recent years Bulgarian exports to the two last named groups of countries have not equalled her imports from them. The cumulative deficit for the five years 1960-1964 amounted to about 120 million dollars.

9. Bulgarian exports of fruit, vegetables and processed food-stuffs are generally competitive in price and quality on Western European markets. However, it is unlikely that Western demand for these products will expand very rapidly in the future. As to Bulgarian manufactured goods, their quality is not yet such as to render them competitive in Western markets. Moreover, outlets for Bulgarian exports in Western countries are restricted in various ways. The United Kingdom has recently offered to remove quantitative restrictions on a wide range of goods imported from Communist countries on condition that the latter undertake to avoid any action likely to disrupt the British market, and Bulgaria has accepted this offer; but it remains to be seen to what extent this will stimulate an increase in Anglo-Bulgarian trade.

10. Like some of the other Communist countries in Eastern Europe, Bulgaria has recently shown an interest in the possibility of joint projects to be operated in conjunction with Western firms. Although no agreement has yet been signed, it is felt that the Bulgarians are favourably disposed to the idea of co-operation along these lines.

11. As Bulgaria's trade with the free world still accounts for only a small proportion of its total trade, it could probably be increased considerably without rendering the country dependent upon Western deliveries to a degree that would be frowned upon by Moscow. Nevertheless, according to the Bulgarian long-term economic plan the share of Communist countries in total Bulgarian trade is expected to increase over the next 15 years at the expense of trade with the free world.

C. CONCLUSIONS

12. During recent years the Bulgarian economy has developed quite rapidly, particularly in the industrial sector. A new system of economic planning and management is at present being introduced in some industries and should permit a more efficient use of resources. In spite of this, however, it may prove more difficult to maintain a high rate of economic growth in the future, since untapped reserves of man-power will be less abundant and the régime's new-found concern with the development of light industry may lead to a fall in the rate of investment.

13. As to the possibility of fostering closer economic relations between NATO countries and Bulgaria in the hope of reducing the latter's heavy dependence upon the Soviet Union the Sub-Committee can only venture the following tentative conclusions:

- (i) So far there is little indication that the Bulgarians would like to see a shift in the geographical pattern of their foreign-trade in favour of the West and at the expense of the Communist world. Their heavy economic, military and political dependence on the Soviet Union tends to discourage them from taking any initiative that might arouse Moscow's displeasure. Moreover, they seem reasonably satisfied with the rôle allotted to them in COMECON. Bulgaria does not belong to and has not so far approached any Western international economic organization (such as GATT, IMF, IBRD, the European Economic Community, etc.). However the Bulgarians may in future show increasing interest in purchases of machinery and equipment from the West and in the development of joint projects in partnership with Western firms, the more so since the present level of Bulgarian trade with the West is so low that it could probably be increased substantially without alarming the Soviet Union.
- (ii) Although there is little prospect of dissociating Bulgaria from the Soviet Union in the immediate future the West should nevertheless do all in its power, in particular through establishing closer economic relations, to help Bulgaria to assert its national interests. Western countries should take such steps as they feel to be appropriate with a view to expanding trade with Bulgaria. There is undoubtedly a market in Bulgaria for Western goods, especially capital goods, but on the other hand the prospects for an increase of Bulgarian exports to the West are not very encouraging. Western countries should therefore endeavour to facilitate the access of Bulgarian products to their markets, whilst taking care not to damage the legitimate commercial interests of other countries, especially those free world countries which are still in the course of development. Joint projects in partnership with Western firms should also be encouraged and the possibility of extending technical assistance might be considered. Western countries should pursue an economic policy flexible enough to allow them to exploit any opportunity that future economic developments in Bulgaria may offer, and with this end in view should continue to follow such developments closely.