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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

ECONOMIC REVIEW ON EASTERN EUROPEAN COUNTRIES

B U L G A R I A (1 9 6 6)

Comments by the United States Delegation on
the note by the German Delegation

A. Introduction

We are in broad agreement with the conclusions of the very useful and informative German note on the Bulgarian economy. Our brief general comments are followed by a discussion of the one topic that we felt should have somewhat greater attention - the key rôle of foreign trade in the emerging problems of the economy. To these remarks we have added comments on specific paragraphs in the note.

B. General Comments

2. The German note identifies the main economic problems of Bulgaria - the lag in agricultural output, the strains involved in carrying out an ambitious investment programme, the substantial dependence on the USSR for industrial materials and investment goods, and the uncertain prospects for maintaining a rapid increase in exports to the industrial West.

3. We agree that Bulgarian economic plans, while still orientated toward short-term growth, are more realistic than in the past, and that long-term factors are taken more into consideration. We, too, find that economic reform has had as yet no perceptible effect on the economy.

C. The Rôle of Foreign Trade

4. As pointed out by the German Delegation in the last review of the Bulgarian economy (NATO RESTRICTED WORKING PAPER AC/89-WP/164, 1st June, 1965), the rapid, steady growth of the Bulgarian economy has resulted in no small part from the ease with which the country has been able to expand foreign trade. The USSR and, to a lesser extent, the other Eastern European countries have readily agreed to furnish the goods necessary for Bulgarian industrial development in return for agricultural and other raw materials and semi-manufactures.

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Since 1955 Bulgaria's trade with the USSR has risen at record rates (20 percent annually on an average in 1956-60 and 14 percent in 1961-66). Trade with the other Eastern European countries has grown steadily, though less rapidly, averaging about 10 percent per year since 1955. Finally, trade with the non-Communist world has grown enormously - by 27 percent a year since 1955 - a rate approached not even by Rumania, whose trade grew more rapidly in the early 1960s, but much more slowly for the period as a whole. As in the Rumanian case, Bulgaria's trade with the West has flourished on the basis of selling agricultural and food products, and some industrial materials, on a scale still small enough to be absorbed without difficulty in the fast-expanding markets of Western Europe. Since the late 1950s, imports from Western Europe have also been stimulated by the easy availability of credits, mainly from the NATO countries. Bulgaria's total imports have risen to 20 percent of GNP - a proportion exceeded only in a few small, highly specialised economies in Western Europe (Benelux, Denmark, and Norway).

5. It is becoming harder for Bulgaria to continue to increase trade at such rates. Apart from limitations on demand, which may become important in Western Europe, limitations on the supply of agricultural products and many industrial materials are bound to arise as exports claim larger shares of domestic supplies. It is hardly feasible to continue to raise exports of agricultural products, which account for one-third of exports, at 15 percent per year, while agricultural output rises at only 3 percent. In order to finance the imports essential for increased industrialisation, Bulgaria must accelerate the growth of agricultural output and continue to expand the share of exports of more highly processed goods.

6. These requirements indicate a need for a greater shift of priorities in investment in favour of agriculture and export industries than are seen in the plans for 1966-70. As the German note points out, the planned allocation of resources to agriculture seems not enough to increase the tempo of agricultural production. Export industries are faring better, but as in other Eastern European countries, investment is still greatly influenced by the desire to "round out" the economy, a hangover from the frankly autarkic policies of earlier periods.

7. To maintain the growth of exports, other basic changes will also be needed. Profound modifications will have to be made in the operation of the economy, and innovations will have to be made in foreign trade. Specifically, economic growth will depend increasingly on improvements in management and in workers' and peasants' incentives and on closer economic relations with the industrial West.

8. Both these requirements involve serious difficulties, as the Bulgarians probably realise. Any real progress in economic reform is bound to be slow - particularly because of lags in developing effective executives - and inevitably will run into entrenched opposition. To promote closer economic relations with the West will be no less complicated.

9. Bulgaria has run up a large unfavourable trade balance with hard currency countries in recent years. In 1966 the Bulgarian deficit in hard currencies (on current account) was over \$100 million. (The German Federal Republic, Bulgaria's main trading partner in Western Europe, is also the major creditor). In relation to the size of Bulgaria's exports to hard currency areas, its indebtedness may be one of the highest in the Communist world - estimated at over \$300 million at the end of 1966, or nearly double the volume of the year's hard currency exports. Nearly all this indebtedness must be repaid within 5 years. The Bulgarian government realises that it cannot afford to go into debt at this rate for very long. Concerned over its ability to maintain and increase high priority imports of machinery and industrial materials, the government has now clamped down on new purchases. Under a recent Council of Ministers' decision, contracts for imports of over \$200,000 must be matched with contracts to sell the same amount in the same Western currencies.

10. Although the Bulgarians apparently do not intend to go over to a system of tight bilateral balancing with Western industrial countries, they clearly do expect to rely increasingly on tie-in deals of various kinds, in which major imports will be related in one way or another to the marketing of Bulgarian output - "joint ventures" in the loose Communist definition. Bulgaria has concluded several arrangements of this type with Western firms, including agreements last year to pay at least partly in barter for four plants to be delivered by French firms under credits. Sofia has also embraced other types of "business co-operation", joining with Western companies to promote Bulgarian exports through joint companies domiciled in the West.

11. The major difficulty, of course, is in securing substantial interest from Western firms. For Bulgaria as for other Eastern countries, the advantages of such arrangements are many and complex. Joint ventures involve more Western assistance (in technical know-how, barter financing, export marketing) than past East-West commercial transactions, but no Western control over management or ownership in the East. They are also almost invisible politically; as business agreements, they can proceed independently of (and make faster progress than) other traditional vehicles of relations that face obstacles of ideology and policy. This was illustrated by Bulgarian Foreign Trade Minister Budincev's recent call for "a joint factory in Japan in order to step up exports ... to a third country such as South Korea", a politically sensitive country with which Bulgaria has previously carried on little overt trade.

12. In the long run Bulgaria is likely to explore such and similar opportunities if it is to maintain the pace of industrialisation. In the short run, however, Bulgaria can count on Soviet support. The USSR is committed to increasing trade with Bulgaria through 1970 at an annual rate of about 10 percent - substantially lower than the rate in the early 1960s, but high enough to satisfy much of Bulgarian import requirements. Moreover, the USSR has agreed to absorb a further rapid increase in Bulgarian machinery and equipment, though in recent years the Soviet government has become a much tougher customer for its other Eastern European suppliers. The real squeeze on Bulgaria will come after 1970, when it will be exporting about as much machinery to the USSR - and probably to most other Communist trading partners - as it imports from them. From then on, Bulgaria will depend to almost the same extent as the old industrialised countries on its exports of finished goods. It has a very short time to prepare for this kind of competition.

13. With an eye to offsetting its mounting hard-currency deficit, Bulgaria has succeeded in the space of a few years in developing its tourism with the West in the most startling fashion. From a negligible number in 1960, the influx of Western tourists skyrocketed from 397,000 in 1964, to 620,000 in 1965 and an estimated 900,000 in 1966. Moreover, the proportion of Westerners among all tourists - said to have numbered 1.4 million in 1966 - has recorded a steady increase, from 49 percent in 1964 to 60 percent in 1965 and about 65 percent in 1966. Bulgaria has been the first Eastern European country (aside from Yugoslavia) to abolish visas for tourists in 1967 in honour of the "International Tourist Year", and is pushing for bilateral agreements with Western countries for their permanent abolition. Of the reported \$40 million earnings from tourism in 1965, probably about one half was in hard currencies.

D. Specific Comments

On paragraph 2. The experimental phase of the Bulgarian reform did indeed produce various statements of official satisfaction with the results. In an issue of 3rd January, however, covering 11 months of 1966, the economic editor of Rabotnichesko Delo reported that the plants operating under the new economic system had done less well than the average in increasing labour productivity. He considered this to be "obviously an abnormal phenomenon."

On paragraph 14. We see no essential difference between the Bulgarian reforms and those adopted in the other Eastern European countries. There are certainly variations in emphasis as well as in specific provisions. All the programmes, however - not just that of Bulgaria - are designed to make the existing system work better. Individual economists have conceived more sweeping proposals, in which "market forces" would play the main rôle in determining output and prices. None of the régimes, however, has the slightest intention of giving up controls to such an extent.

One development not mentioned in the note is Bulgaria's partial decentralisation of capital investment. Except for key projects, investment by existing enterprises is to be financed by the funds of the enterprises themselves and from bank credits. Other Eastern European countries have adopted similar regulations, aimed at ending the crush of applications for state financing, which the central authorities have never been able to deal with effectively.

On paragraph 16. We have revised the GNP figures shown here, on the basis of new production indexes for the 1960s. The estimates have also been shifted from a 1963 to a 1965 price basis. The new estimates follow (billion 1965 dollars):

<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>
5.0	5.3	5.8	6.1	6.5	6.8

On paragraph 19, last sentence. The final version of the Fifth Five Year Plan calls for an increase in national income of 50 percent, or an average annual rate of growth of 8.4 percent.

On paragraph 33. Our information indicates that for the period 1960-70 Soviet credits amount to more than 800 million rubles.

On paragraph 41. It should be noted that the "high-yield types" are responsive to chemical fertilisation.

Raising and stabilising production may be more difficult for corn than for wheat because of the summer droughts. The expansion of corn acreage under irrigation will be relatively slow in the current Five Year Period (1966-70) and must compete with vegetable and wheat crops for resources.

On paragraph 42. We have no evidence to support the statement that livestock are "dying off at a considerable rate".

The development of livestock numbers has been hampered by a poor feed base and unfavourable prices that depressed breeding.

On paragraph 45. It would be helpful to add after "75 kg/ha" the words "of arable land".

We think that increased inputs of chemical fertiliser and pesticides have contributed to higher agricultural production (see paragraph 40). In addition, the increased use of fertiliser on wheat, corn and industrial crops shows up in the higher yield data. It is suggested, therefore, that the phrase "below expectations" would be more suitable than "relatively insignificant".

On paragraph 46, second part. The last sentence would be clearer if it read: "According to official information indigenous production supplies only about 70 percent of the recommended protein requirements."

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On paragraph 46, third part. We suggest that the next to the last sentence should read: "The specialisation and concentration of livestock production is to be strongly encouraged." The last sentence would stand out to better effect if made as a separate point.

On paragraph 51. It is suggested that it be specified that the data shown are planned data.

On paragraphs 51 and 52. Taxes on enterprise income and assets are also included with turnover taxes and industrial profit deductions to compute the percentages shown.

On paragraph 61. It appears that the export of machinery and equipment increased by about 275 percent during 1961-65. This figure was derived by using data on exports of machinery and equipment found in Statisticheski Izvestiya, No. 3, 1966, page 37. It is assumed that export prices did not change appreciably during this period (see data in Statisticheski Godishnik, 1966, page 294, Table 1).

On paragraphs 63-65. Bulgarian foreign trade goals indicate little change in the overall geographic composition of trade through 1970. This means that the rate of growth of trade with the USSR is to be reduced and that the recent high rate of growth of trade with the non-Communist world is to drop even more sharply, while trade with the Eastern European countries will continue to rise at rates of the recent past. Large increases in the influx of Western tourists to Bulgaria and success in developing "joint ventures" with Western firms could help to compensate for the slower growth of conventional trade with the non-Communist world. The trade with Eastern Europe seems the least useful to Bulgaria, making a relatively small contribution either of industrial materials or of advanced industrial equipment. The slowdown in trade with other areas suggests that trade will be making less of a contribution to economic growth in the late 1960s than in earlier periods.

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