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1977 COLLOQUIUM ON COMECON:
PROGRESS AND PROSPECTS

Note by the Director of Economic Affairs

Please find attached a report based on the papers and discussions that took place at the NATO Colloquium on COMECON held on 16th to 18th March, 1977 under the sponsorship of the Economic and Information Directorates. The document synthesises the main findings of the gathering.

2. Participants to this Colloquium, the sixth in the series which began in 1971, were eminent academics from France, Germany, the United Kingdom and the United States. In addition, a large number of experts and officials from public administrations, international organizations and the private sector attended.

3. For the sake of clarity this paper is divided into three main sections which correspond to the general pattern of the proceedings: I. Historical Background; II. Intra-COMECON Developments; III. External Developments. Finally, the report summarises the conclusions and tentative prospects postulated by the participants.

4. This document is forwarded to the Council for information.

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COMECON: PROGRESS AND PROSPECTS

COLLOQUIUM, MARCH 1977

Report by the Chairman of the Colloquium

I. THE HISTORICAL BACKGROUND

1. The quest for integration within the Soviet sphere of influence dates back to the height of the cold war. In January 1949, COMECON(1) was established in Moscow to counteract the Marshall Plan and to "harmonize economic development plans, exchange economic and technological information under mutual economic assistance". Since 1949 there have been six discernible phases corresponding to changes in political trends in the Soviet effort to build up an integrated COMECON system. The first, under Stalin's influence (1949-1954), represented a period of inactivity as Soviet policy called for complete economic domination over East Europe through strictly bilateral trade conditions. The second period (1954-1956) represented the post-Stalin thaw, when the principles of Plan co-ordination, supra-national economic organizations and joint development of major resources were first seriously suggested. The third stage (1956-1962) was marked by the Hungarian uprisings, the Polish riots as well as Khrushchev's "secret" speech which led to the concept of more "mutual co-operation" within the bloc. The fourth stage (1962-1971) witnessed the creation of formal instruments of integration: the two COMECON banks and international economic organizations, as well as the joint-project initiatives.

2. The Bucharest COMECON congress of 1971 marked the fifth stage and a high mark in efforts to provide a better framework for COMECON integration planners. It approved the "Complex Programme" for complete planning and economic integration to take full effect by 1980. This document was effectively a compromise containing certain proposals that appeared to be mutually exclusive. Yet it optimistically called for a single COMECON centrally determined Plan which would direct the flow of capital to areas of highest return, promote concomitant labour flows, specialization and standardization in production, and advance the idea of a single currency and centralised control foreign trade.

(1) Current members: USSR, Bulgaria, Czechoslovakia, Hungary, GDR, Poland, Rumania, Mongolia, Cuba, with associate member status given to Yugoslavia

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3. The sixth stage (1973 onwards) appears to be a period of stagnation of the integration process. Each COMECON country seems more intent in pursuing its own way relying largely upon Western technology and trade, instead of supporting a co-ordinated bloc approach to modernization. The COMECON 30th Session held in Berlin in 1976 put aside the Bucharest integration target date and recommended over the next ten to fifteen years a joint programme of co-operation between the five leading sectors of production: energy and raw materials, machine construction, agriculture, transport and industrial consumer goods.

4. The current 1976-1980 Five-Year Plans appear to retreat further from the Complex Programme. National planners seem to be more intent on solving their own regional problems, promoting bilateralism, establishing individual trade and finance relations with the West and carrying out various indigenous economic reforms, all of which run counter to the principle of COMECON integration. Hungary and Poland in particular favour certain limited forms of decentralised measures including greater reliance on price levers and encouragement for limited private enterprise mainly in the service sector and in agriculture.

II. INTRA-COMECON DEVELOPMENTS

(i) Joint Energy Projects

5. Integration efforts were examined in those sectors where sufficient data were available to the experts. The areas covered far from exhaust the actual extent of intra-COMECON co-operation, but are representative of current trends. In addition, reference is made under this item to comparative living standards, a topic which was only peripherally discussed. COMECON joint planning activity, or "integration from the top" has been relatively successful in the field of joint energy projects. The Soviet Union, with its huge domestic resources, has been willing to meet growing energy and raw materials demands from Eastern Europe, and is now the area's single most important source for oil, natural gas, iron ore and many other raw materials. In return for guaranteed delivery of these supplies, East Europe, except for Rumania, has agreed to provide investments of manpower, materials and money in the exploitation and development of Siberian resources. In the last decade joint energy projects have included the oil pipeline "Druzhba", the gas pipeline "Bratstvo" and the electrical high voltage system "Mir", the Orenburg gas pipeline, two oil pipelines around Polotsk, the 140 million rouble 750 kV electricity line between the Ukraine and Hungary and various nuclear reactor programmes built with extensive Soviet help. Whether such joint ventures are desired or not by all parties concerned, this is a definite step towards integration.

(ii) COMECON Standardization

6. A small, but important, step in integration has also been achieved with the establishment of the COMECON Permanent Commission for Standardization and of the COMECON Institute of Standardization. Each member's own Standardization Committee is represented in these bodies and most of them also participate in the work of the International Organization for Standardization, in the International Electrotechnical Commission whilst the COMECON Secretariat sends delegates to meetings of officials concerned with standardization in the Economic Commission for Europe.

7. The Soviets have taken standardization very seriously. The leading Soviet organization is the State Standards Committee (GOSTANDART) whose work employs about 60,000 people in various capacities including those working in standardization and similar institutes. The COMECON nations have published about 83,000 national standards. The USSR alone spends some 22 billion roubles a year on measurement, throughout industry, which is one of the main fields where standardization will have an impact.

8. It is apparent that the various COMECON bodies under their annual and long-term plans have made progress as the number of standardization recommendations and standards, mainly on engineering and raw materials, gradually increases. By the end of the current comprehensive Plan for COMECON integration, most industrial items of COMECON will be produced to some 10,000 commonly accepted standards or subject to standardization recommendations.

9. Many questions about COMECON standards still remain unanswered: these include the precise definition of "standardization" within COMECON; the irrelevance of many COMECON standards to the actual cost of making the item, leading to unnecessary wastage; whether standards encourage COMECON technology and innovation flows(1). Lastly, there remains the relation between the immense COMECON expenditure and man-hours on standardization and the constant press complaints of low productivity and goods "not conforming with GOSPLAN standards".

(1) An interesting article in Sotsialisticheskaya industriya, 11th November, 1976 "Tol'ko po Gostu" noted that about 50,000 types of rubber items for industrial use are produced in the Soviet Union, but less than half of them are produced to GOST specifications

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(iii) COMECON Living Standards

10. Any comparison of living standards within COMECON is extremely difficult due to the problems of lack of "consistency, comparability and common definition", as well as to general paucity of national data. Nevertheless, based on national figures the highest per capita GNP in 1975 is in the GDR, with \$4,166, and the lowest in Rumania (\$2,419). At the same time all COMECON living standards are adversely affected by large diversions of resources, manpower and materials to defence commitments. Availability of many basic goods differs greatly from adequate in the GDR and Czechoslovakia to scarce in the USSR, Rumania and to some extent Poland. In those countries at the lower end of the scale, especially the USSR, there is a corresponding absence of services and negative State attitudes towards the consumer that aggravate the situation and lead to a flourishing black market.

11. All participants commented that there had been a notable increase in living standards since 1960, though admittedly starting from a very low level in most instances. A fairly wide range of basic consumer goods is available, manufactured and traded in the COMECON area. In this regard, there has been some integration, but this aspect should not be exaggerated as anyone who visits the Soviet Union will realise how scarce and expensive even a Polish sweater or East German cosmetics can be. Inherent in this rise, and potentially far more dangerous for COMECON governments, is the population's anticipation, encouraged by Party propoganda, of still better days to come. If these hopes are dashed, and they may well be as most countries are now shifting scarce resources to the export and industrial sectors to help pay off their huge foreign debts, the political risks of frustrated consumers could be very real. The Polish riots of 1976 and grumbling in the USSR over meatless Thursdays (in restaurants) are symptoms of such a danger.

III. EXTERNAL DEVELOPMENTS

(i) COMECON Financial Institutions

12. The discussion was generally limited to organizational and structural aspects. In this context an evaluation was given of the effectiveness, present and future rôle of the two COMECON clearing banks, together with an analysis of the rôle of the transferable rouble: the cornerstones of the proposed integrated financial network are the two Moscow-based banks: the International Bank for Economic Co-operation (IBEC) established in 1963, and the International Investment Bank (IIB) set up in 1970. The IBEC's task is to "organize trade as the

material process of integration", whereas the IIB is to "grant medium and long-term credits for COMECON joint projects or for projects, particularly energy, in the common interest of several countries". Both have as an accounting unit the transferable rouble (TR), with total assets in January 1976 of 4,249 million TRs.

13. The banks are functioning reasonably well, but more substantial integration is yet to emerge: for example, there is no mechanism for adjusting rates of exchange to national productivity and the yearly balance of payments position. No country, especially Hungary and Poland, is willing to give up its fluctuating national price fixing system. The transferable rouble (TR) is, in fact, non-transferable, and does not reflect the true cost or value of the goods, as it cannot be used within COMECON for the purchase and sale of commodities. Indeed, it remains essentially an accounting unit for book-keeping purposes and no COMECON country is able to use TRs to settle accounts with non-COMECON countries. Proposals made in 1976 by IBEC that Western firms accept TRs for sales to Eastern Europe have not met with favourable response. It is revealing that in a recent article in Figyelő a Hungarian National Bank official called for a new world monetary system based on gold and not on the transferable rouble.

14. Finally, it has become all too apparent that the IBEC and IIB settle COMECON transactions not with COMECON currencies, but in convertible Western currencies. Available data show that convertible currencies represent 70% to 80% of the two banks' total balance, and this use has tended to dampen the moves towards a future system of COMECON convertible currencies.

(ii) COMECON International Economic Organizations

15. There are currently eleven COMECON International Economic Organizations (IEO); seven International Economic Associations(1) and four joint enterprises(2). Nevertheless, the IEOs are not "multinational socialist enterprises" intended for rapid integration: success appears impossible without close links between national planning, a common industrial policy, similar control systems and a more flexible market economy than now exists. For the moment, each country is unwilling to give up part of its national sovereignty over economic planning.

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- (1) Internatominstrument, Interatomenergo, Assofoto, Intertextilmash, Mongolsozvvetmet, Interkhimvolokno, Domokhim
(2) Haldex, Druzhba, Erdenet, Interatominstrument

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16. Interatomenergo provides an extreme, but nevertheless valid example of the rôle of the Soviet Union in the IEOs: the USSR has a monopoly in the COMECON field of nuclear technology in which power policy, as well as security and economic interests overlap. It is clear that through control of nuclear power plants, and even sale of uranium, the Soviet Union is able to supervise also the research activities of other member countries in this field.

(iii) COMECON Trade

17. The Soviet Union remains the primus inter pares in COMECON trade as it represents a radial pattern, in which Soviet exports of raw materials and energy to Eastern European countries are balanced by imports of technology and manufactured goods. Only the Soviet Union is able to spread its trade influence over all of East Europe with no dependence on any specific country.

18. The Colloquium attempted to draw conclusions and determine future trade evolution. Stress was laid on the region's continuing need for and dependence on Western technology and massive investment in the foreseeable future. In this context, it was noted that COMECON's imports from OECD countries from 1970-1975 rose considerably faster than exports; the area's overall balance of trade deficit rose from \$731 million in 1973 to \$9 billion in 1975. Although 1976 brought a slow-down in East-West trade, particularly imports from Western countries and a spurt in intra-COMECON trade, it is still too early to say whether a new trend has set in.

19. Despite efforts to increase its trade with the Third World, particularly in the case of Rumania, East Europe in recent years has felt a certain disappointment about the results of economic relations with the developing countries, while the Third World is in turn dissatisfied with COMECON's economic efforts. This has been partly due to the COMECON refusal to be associated with a theory of dividing the world into "rich" (North) or "poor" (South) countries, and with an equalisation of world riches. COMECON claims the capitalist rather than the socialist nations are responsible for the Third World plight. This sort of attitude has not helped trade prospects, and COMECON faces the question of whether it will continue to help further to finance Third World economic development.

IV. PROSPECTS

20. COMECON's growing dependence on the West will probably not allow a dramatic reversal of the recent trade patterns. Poland and Hungary, more than the rest of COMECON, have based much of their future growth on importation of raw materials and equipment from the West, to be paid for by an anticipated greatly expanded export trade. This continuing hectic and often unco-ordinated purchase of further Western technology and "know-how" by each member country has delayed the COMECON integration programme for the time being. In addition, because of ponderous bureaucratic and internal financing institutions, intra-COMECON trade deals are far more time-consuming and arduous than if the purchaser bought from the West. For the next few years, this inflexible trade machinery will, therefore, be a major factor militating against COMECON's potential as an autarkic economic region.

21. Thus, in practice, Soviet influence is not totally pervasive and integration appears a long way off. COMECON remains a grouping of separate centrally-planned economies with national boundaries and smouldering territorial disputes (e.g. Rumania and the USSR over Bessarabia), varying living standards, separate planning organizations, separate currencies, national banks, and foreign trade ministries. Resource and product flows across national boundaries are mainly carried on through bilateral rather than multilateral trade agreements, subject to constraints of a lack of a convertible currency and separation of domestic and COMECON prices.

(Signed) J. BILLY

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