

CONSEIL DE L'ATLANTIQUE NORD
NORTH ATLANTIC COUNCIL

EXEMPLAIRE N° 181
COPY

ORIGINAL: ENGLISH
5th July, 1963

NATO CONFIDENTIAL
DOCUMENT
AC/127-D/128

See Corr. following

COMMITTEE OF ECONOMIC ADVISERS

RECENT ECONOMIC DEVELOPMENTS IN THE EUROPEAN SATELLITE
COUNTRIES AND PROSPECTS FOR THE FUTURE

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

1. The Sub-Committee on Soviet Economic Policy has prepared the attached report on the basis of official documents on the fulfilment of the 1962 economic plans, the economic plans for 1963, the various five to seven year plans and on additional information obtained from delegations.

2. This report is the first to deal with economic developments in the European satellite countries. The Sub-Committee has decided to submit this document to the Committee of Economic Advisers in order to complement its reports on the Soviet Union, and on Continental China⁽¹⁾ so as to deal with economic developments in the various Communist countries.⁽²⁾

(Signed) A. VINCENT

OTAN/NATO,
Paris, XVIe.

- (1) AC/127-D/127
(2) AC/127-D/129

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Report by the Sub-Committee on Soviet Economic Policy

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PART A: GENERAL SURVEY

Introduction

1. The seven European satellites - Albania, Bulgaria, Czechoslovakia, the Soviet Zone of Occupation of Germany, (1) Hungary, Poland and Albania - have a total population of just about 100 million, and cover an area of 1 million square kilometers (approximately 0.4 million square miles). They include highly industrialised countries, such as the Soviet Zone of Occupation of Germany and Czechoslovakia, industrial-agricultural countries, such as Poland and Hungary, and more agrarian countries, such as Roumania, Bulgaria and Albania.

2. The economies of the leading industrial countries - Soviet Zone of Occupation of Germany and Czechoslovakia - are those most closely tied to the Soviet economy. They are also among the most dogmatic as far as economic organization, especially collectivisation, is concerned. Poland is considered to be the most "liberal," or undogmatic, being the only country of the group where the vast majority of the land is now owned by private farmers, and where certain important export industries are given more freedom of action. This last feature applies also to a lesser extent to Hungary and Bulgaria. Roumania, having received less Soviet aid and credits than the other countries (with the exception of Czechoslovakia) and being well-provided with raw materials, plays a rather independent role in COMECON, though it is one of the more rigidly organized countries. Albania is very much to the left of the rest and, having turned Maoist, was deprived of all aid and credits in 1961, and no longer participates in COMECON activities.

Planning

3. The most advanced industrial countries of the Communist world, the Soviet Zone of Occupation of Germany and Czechoslovakia, were those which have had the greatest difficulties in fulfilling their plans for 1962. Both countries had to abandon their plans (the Seven-Year Plan, 1959/1965, for the Soviet Zone of Occupation of Germany, the Five-Year Plan, 1961/1965, for Czechoslovakia) and will start new Seven-Year Plans in 1964, thus interrupting COMECON synchronisation, according to which all current plans should have ended in 1965. Continuing failures and unsatisfactory performance have forced régime planners to undertake a more realistic assessment of their economies; as a result, with the possible exception of planning in agriculture 1963 plans appear more realistic than those of the past several years.

(1) The use of the word "country" with respect to the Soviet Zone of Occupation of Germany does not imply that the Soviet Zone of Occupation is considered an independent state like the other satellites of the USSR.

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Net material product

4. For the European satellites, 1962 was a rather bad year. None of them was able to reach its target for net material product, with virtually no increase for Czechoslovakia, one of 2.5% only for Poland, approximately 3% for the Soviet Zone of Occupation of Germany, 5% for Hungary, 6% for Bulgaria, 7% for Roumania and 8% for Albania. The average for Eastern Europe as a whole was probably about 3%, as against 6% in both 1960 and 1961.

Industrial production

5. The 1962 industrial targets appear to have been nearly reached, or even exceeded, in all European satellite countries, with increases from 6% (Soviet Zone of Occupation of Germany and Czechoslovakia), 8% to 9% (Poland and Hungary) to 11% (Bulgaria). With an increase of 14.7%, Roumania remained the country with the highest rate of increase in industrial production within the Soviet bloc. In all countries however there occurred a further deceleration in rates of growth.

6. Industrial output targets reached, or planned, in the different countries reflect the new COMECON division of labour policy which will soon result in structural changes of the economies. The main stress seems to be put on an increase in chemical products, especially plastics and fertilisers, of which the Soviet Zone of Occupation of Germany is the largest producer, but great progress has also been made in this sector by Czechoslovakia and Hungary. For engineering products and equipment, Czechoslovakia and the Soviet Zone of Occupation of Germany are the main suppliers, with Poland specialising in chemical machinery and plant, tractors, buses and ships, Bulgaria in electric equipment and lathes. Hungary is the main exporter of aluminium. Roumania seems to be developing more or less independently an important petro-chemical industry and engineering.

Agriculture

7. Agricultural production has been poor in all countries of the region. In Czechoslovakia crops as well as livestock declined, and in Poland the crops fell far short of the exceptionally good results of 1961, but livestock partly made up for the loss. The only increases in overall output were reported from Bulgaria and Albania.

8. Since the collectivisation drive started, agricultural results have been highly unsatisfactory. As a consequence, several countries of this area - Hungary, Czechoslovakia and Bulgaria - introduced in 1962 incentives for livestock breeding on the private plots left to the collective farmers, pension schemes, or minimum wage guarantees. Investments in agriculture will be intensified in 1963, especially in Czechoslovakia and Poland, at the expense of industrial output targets provided for in the original Five-Year Plans. Mismanagement of the collective and

state farms, unrealistic production targets, inadequate mechanisation, low morale and lack of interest among the peasants have made farming the gravest problem in all satellite countries.

Foreign trade

9. Unlike the Soviet Union, where foreign trade is estimated to take a share of not more than 5% of GNP, all the European satellites are dependent on it to a large extent. Though the nature of the price system makes a comparison extremely difficult, it can be estimated that the share of foreign trade in the satellites' GNP ranges from under 15% (Roumania) to close on 30% (Hungary).

10. All the satellite countries depend on Soviet deliveries of raw materials, such as iron ore, crude oil, non-ferrous metals, etc., but have to turn to the West for modern equipment required under their ambitious industrialisation programmes, and also for foodstuffs, when these are in short supply. They depend on the Soviet Union for aid and credits, of which Poland has been the largest recipient, followed by the Soviet Zone of Occupation of Germany, Bulgaria, Hungary and Albania, whereas comparatively little has been provided to Roumania and Czechoslovakia⁽¹⁾.

11. The share of the Soviet Union in the foreign trade of the satellites varies significantly: around 50% in the case of Bulgaria and the Soviet Zone of Occupation of Germany (which, in turn, is by far the largest trade partner of the Soviet Union), approximately 35% in the case of Hungary, Roumania and Czechoslovakia, and 29% in the case of Poland. The share of the Soviet Union in Albania's foreign trade (50% to 60%) was taken over by Communist China, which accounted for no less than 59% in 1962.

12. As to the share of trade with "capitalist" countries (See Annex, Table 6) the list of satellite countries is headed by Poland (37%), closely followed by Roumania; Hungary, Czechoslovakia and the Soviet Zone of Occupation of Germany come at a greater distance; Bulgaria and Albania are at the end with only 15% and 10% respectively. Roumania has lately been the most dynamic in developing her foreign trade with Western countries, whereas Gomulka recently expressed concern at the large share of the "capitalists" in Poland's foreign trade. Nearly half of Czechoslovakia's trade with the West is accounted for by trade with developing countries (over 15% of the total).

(1) "Aid" in Soviet terminology includes such things as the cancellation of reparations, the transfer of Soviet shares in joint companies, the restitution of ownership of former enemy assets, the reduction of contributions towards the maintenance of Soviet troops in former enemy countries such as the Soviet Zone of Occupation of Germany, Hungary and Roumania, as well as technical assistance, commercial and investment credits.

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