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ECONOMIC COMMITTEE

25TH ANNIVERSARY OF THE COMECON

Note by the German Delegation(1)

SUMMARY

The COMECON was founded at the initiative of the Soviet Union on 25th January, 1949.

Originally only planned as a trade organization, established as a counter-weight to the Marshall Plan, the COMECON today is a comprehensive economic area. The leading power in the COMECON is the USSR which uses the organization primarily to achieve her own objectives.

The various phases of development in the COMECON have always been reflected by typical periods of economic policy in the various member countries. Moscow makes constant efforts to achieve supra-national planning in the COMECON area and the present preparation of a "co-ordinated five-year plan of integration measures" brings the realization of this objective nearer.

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(1) This report may be considered as the German Delegation's contribution to the examination by the Committee of the recent developments in COMECON, planned for 6th June, 1974.

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MAIN REPORT

1. The COMECON was founded at the initiative of the Soviet Union at an economic conference of Bulgaria, Poland, Romania, Czechoslovakia, Hungary and the Soviet Union in Moscow on 25th January, 1949. Albania joined the COMECON on 24th February, 1949.

The GDR was admitted into the organization on 29th September, 1950, the Peoples Republic of Mongolia on 7th June, 1962 and Cuba in June 1972.

Because of her pro-Chinese and anti-Soviet position in the dispute between Peking and Moscow Albania was not invited to the meeting in June 1962 and subsequently discontinued her contribution payments. Yugoslavia's application for admission of 1st February, 1949 was rejected because of the previous breach between Belgrade and Moscow. A first rapprochement did not take place before 1956, when Yugoslavia was allowed to send observers to some COMECON meetings. A renewed request by Yugoslavia for associated membership was accepted in an agreement in Moscow on 17th September, 1964.

North Korea has been represented with observers in the COMECON since 1957, and North Vietnam since 1959.

The Peoples Republic of China sent observers to the COMECON from 1956 until the breach with Moscow in 1961. Since then she has no longer attended the meetings.

In the Spring of 1973 Iraq officially applied for admission as observer; negotiations are still in progress.

2. During his visit to the Leipzig Spring Trade Fair (March 1974) Nikolay FADEYEV, the Secretary of the COMECON emphasized the following agreements which were concluded at the 27th Council Meeting of the COMECON (June 1973):

- The establishment of a "co-ordinated five-year plan of comprehensive integration measures" and
- the commitment of the member countries to include in the national plans sections providing the material and financial conditions for the fulfilment of the integration tasks.

These agreements characterize the present status of the organization's development. The COMECON, originally only a trade organization established as a counter-weight to the Marshall Plan, is today a comprehensive economic area. The leadership of the organization has increasingly been granted powers enabling it to adapt the economic policy of the member countries to the COMECON objectives.

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The USSR is behind the COMECON and the COMECON policy. She uses the COMECON primarily to achieve her own objectives of domestic and foreign economic policy. A rapidly growing integration provides her with goods at favourable prices which she needs for her further industrialization as well as for the improvement of the standard of living of her population. It gives her the possibility to sell her raw materials and permits at the same time the financing of the development costs by the purchasers.

Moreover, within the framework of the specialization process she arranged in recent years for the transfer to her of the production monopoly of various high-quality investment goods. Integration is for the USSR the pre-condition of her economic and political predominance in the COMECON area. Whereas the establishment of COMECON brought only advantages to the USSR it has been for the other COMECON countries a hard way, involving losses, into a far-reaching economic dependence both from the USSR and from other members countries of this organization. Attempts to break out (in 1956 Hungary and in 1968 Czechoslovakia) were crushed in a military intervention.

3. The development within the COMECON up to now was achieved in various, clearly distinct phases which were reflected by typical periods of economic policy in the various member countries.

1949 - 1953

During this period the COMECON saw its most important task in re-directing towards the east the former traditional trade relations of the member countries with the west, in intensifying intrabloc trade and in tying the economy of the various member countries more closely to the USSR. Until 1953 the COMECON was exclusively a trade organization, and each country followed its own economic policy which was oriented on the Soviet model. The introduction of the planning economy according to the Stalin model, the industrialization of the predominantly agricultural countries Hungary, Bulgaria and Romania and the extension of the heavy industry, in particular in the GDR, the CSSR and Poland by neglecting agriculture and the consumer goods industry, created the first preconditions for the subsequent integration policy. During this period the Soviet Union became the most important trading partner of the other COMECON countries. She supplied to a growing extent the industrial and agricultural raw materials which became a shortage in the member countries and obtained in return investment goods for the further extension of her industry.

1954 - April 1956

After 1953 the Soviet Union took the initiative to achieve specialization and co-ordination. The "Soviet advisers" in the planning commissions and key industries of the member countries worked out studies on the production capacities of each country in order to prepare the five-year plans for the period from 1956 to 1960. These were the first plans established on the basis of integration. At the meeting in Budapest in 1955, the priorities in the COMECON were established. The traditional points of emphasis of the production were recognized although this was only a confirmation of existing conditions (for instance metallurgy, engineering and optic industries in the GDR).

In some of these countries, after an economic growth with high rates of growth (due to the reconstruction after the war), a certain stagnation of the economic development became already apparent in these years. This was inevitably due to the transformation of the economic system, the beginning structural changes and, not least, the unprofitable trade with the USSR in combination with the simultaneous extensive reduction of former trade relations with the west.

As a result of these signs of stagnation communist economic theorists for the first time started discussions on the adaptation of the prevailing planning system to modern conditions (economic reforms).

Poland was obviously the leading country in the field of economic reforms. It had already a complete concept which, however, was only realized in so far as the collectivization of agriculture was stopped in 1956 by the then Party Secretary GOMULKA. This measure was considered as inevitable to supply the rapidly growing population. Since one of the aims of Poland's economic reform was the increase of the productivity of labour, it was bound to fail because of the fear that it would be connected with rapidly increasing unemployment.

May 1956 - 1962

The establishment of the European Economic Community on 25th March, 1957 and the economic progress in Western Europe had their effect on the COMECON's future policy. The 7th Council Meeting in May 1956 provided the basis for an accelerated and intensive division of labour between the COMECON countries. The newly established Permanent Commissions were given the task to intensify the improvement and co-operation of leading industrial branches - especially the engineering, energy, and chemical industries, metallurgy as well as agriculture and foreign trade. The "Joint Institute for Nuclear Research" for

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the peaceful use of atomic energy was set up at Dubna near Moscow as the first multilateral joint foundation. Organizations for co-operation in the railway as well as the PTT sectors and the Conference of Main Customs Administrations were established, the construction of the pipeline "Friendship" was decided in 1958 and price fixing principles in mutual trade between the COMECON countries were adopted.

The recommendations of the Conference of Party Secretaries of the COMECON countries in June 1958, according to which the economic plans for the five-year plan 1961 - 1965 were co-ordinated, are considered as the basis of the "Socialist economic integration". The COMECON statutes were not adopted before 1959. This gave the community, which had been based only on a communiqué of the economic conference of 1949 hitherto a framework in terms of political law after ten years of existence.

The realization that the economic progress of the west could not be caught up with under the existing circumstances led to increased demands for economic reforms. Moreover, there were the growing economic difficulties as the consequence of serious planning and co-ordination mistakes as well as losses in the investment and foreign trade sector. It was probably this situation which induced KHRUSHCHEV to encourage the establishment of a supra-national planning agency within the COMECON. The member countries were to have delegated sovereign rights to this organ. He considered this a pre-condition for future centrally controlled economic planning covering a major area. At the same time this would have created a possibility to prevent a possible break-away from the community of reform-inclined countries. KHRUSHCHEV's project failed because of the resistance of some countries under the leadership of Romania.

1963 - 1969

The time up to 1969 was marked by the previous tensions and weaknesses of the COMECON. Specialization agreements did not work, supply promises were not kept. The International Bank for Economic Co-operation which started operation in 1964, and whose main task was the implementation of multilateral clearing, brought little change. The various countries therefore began to turn to western markets in order to close the gaps.

As a result of Romania's objection against supra-national planning, bilateral agreements between the COMECON countries were maintained in the COMECON area, while the ties of all countries with the Soviet Union remained very strong.

Intra-bloc trade represented between 50% and 70% of the total volume of the various countries whose foreign trade intensity varied greatly. The activity of the COMECON organs was confined to basic arrangements concerning specialization and division of labour, the exchange of technical-scientific experience and the establishment of general conditions for bilateral co-operation.

The years between 1963 and 1969 were a time of "a new start in terms of economic policy" for the member countries. Economic reforms were tested at different times in the various countries - not least stimulated by again appearing signs of stagnation - and finally definitely introduced in the entire economy. In this connection the former planning system was replaced by a control system with market-economy elements. In that phase the new economic system provided for a relatively wide margin of independence for enterprises and was furthermore marked by the new accents of western trade.

Since such an economic policy may have hampered the process of integration, the USSR had to interfere in accordance with her objectives. Her claim for hegemony in the Soviet bloc was re-emphasized by the Soviet intervention in the CSSR and the BREZHNEV doctrine. In the subsequent period the economic leadership of the COMECON countries stopped this so far relatively liberal economic era by various strict re-centralization measures. However, such terms as profit, interest, cost-consciousness, effectivity etc. continued to be the guide-lines of economic policy for reasons of urgent necessity. The continued existence of reform ideas and in particular the events in the CSSR led to accelerated integration efforts within the COMECON by its leading power, the USSR. This development characterizes the latest phase.

From 1969 - 1970

At the turn of the years of 1968/1969 the USSR emphasized that the development of economic co-operation of the socialist countries would not affect in any way the sovereignty of any partner. Under this impression the member countries showed more goodwill in favour of integration - at least in individual sectors - at the 3rd Extraordinary Council Meeting in April 1969 since they expected economic advantages for themselves.

In spite of the Soviet promise it is obvious that the sovereignty in terms of economic policy of the countries is to be gradually limited by measures of the COMECON organs. This became apparent from the establishment of the "Committee for Co-operation of Planning Activities" and the "Committee for Co-operation in Science and Research", but especially from the announcement of the complex programme.

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This programme which although committing the countries to integration, permits them at the same time sovereignty in planning, can be considered as a verbal compromise with inherent contradictions. However, there is no doubt that this policy intensified and accelerated on the whole the USSR's integration efforts with the assistance of the COMECON.

These efforts were supported by the "International Investment Bank" established in 1970. The medium and long-term credits of this Bank are exclusively designed to realise projects in connection with the specialization and co-operation of production, to construct projects for the development of national economies and, in particular to construct projects of multilateral interest. The development fund of this bank which has been existing since 1st January, 1974 is designed to increase the influence of the COMECON in politically suitable development countries, in which projects of common interest are to be realised with the aid of this fund.

Another step in the interest of the integration process was the establishment of contacts with the EEC by the COMECON in August 1973. It can be assumed that the COMECON Secretary FADEYEV has the following objectives in mind in this connection:

- International upgrading of the COMECON;
- Cancellation of the "discrimination" in trade with the west (contingents);
- Control of the trade between the COMECON and the EEC countries.

FADEYEV's proposal to negotiate from bloc to bloc would make impossible future bilateral agreements between individual COMECON and EEC countries.

The basic agreement concluded between Finland and the COMECON on 16th May, 1973 could be considered a model for possible agreements between the COMECON and the EEC. This agreement has been ratified by all COMECON members. Economic co-operation is implemented in each case on a bilateral basis. A comprehensive agreement between the COMECON and the EEC would also have to be specified in bilateral negotiations between the various countries.

Although the administrative conditions for accelerated integration were provided in the various countries, difficulties became apparent, especially last year.

Due to the insufficient export capacities within the COMECON the individual COMECON countries had to resort, for instance, to western markets for purchasing high-quality investment goods. The supplies in return, required to obtain the necessary foreign currency, prevent the extension of intra-bloc trade and thus hamper the development of integration. In addition to this, most COMECON countries take an ambiguous position vis-à-vis the integration policy. Officially they advocate the development in the COMECON; unofficially, however they try to reduce at least the charges connected with the integration. Such charges for the COMECON countries are caused, for instance, by additional investments required for specialization, by insufficient profits or losses in intra-bloc trade due to unrealistic exchange rates and Soviet price regulations. Other disadvantages resulted from the increased supply commitments within the COMECON which were responsible for the countries' inability to supply their domestic markets according to requirements. The COMECON countries reject any control of their western trade by the COMECON. They continue to prefer bilateral negotiations and trade agreements with the EEC countries to FADEYEV's objectives. They are in favour of closer links between the COMECON and the EEC only to the extent as this would bring about a reduction of contingents and, possibly, customs preferences.

4. A review of the first "25 years of the COMECON" shows the following picture:

The COMECON area covers at present about 18% of the world territory with about 10% of the world population. The share of these countries in industrial world production has increased from 18% to 33% in 25 years. The national income of the COMECON countries increased during the same time by 500.7%.

According to a statement by FADEYEV Moscow's constant efforts to achieve supra-national planning seem to have come nearer to realization recently. This is also indicated by the fact that the "co-ordinated five-year plan of comprehensive integration measures" is being prepared already now by the COMECON Planning Committee. Moreover, an "International Planning Agency" within the COMECON under the direction of the Soviet planning chief BAIBAKOV is to be established on 1st January, 1975. This is of the greatest importance because the "International Planning Agency" unlike the Planning Committee, is to lay down binding directives regarding the planning of the various members.

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This would be an interference in the planning sovereignty of the COMECON members which has been jealously guarded hitherto. The establishment of multilateral projects will have a much greater influence on the structure of the economy of the COMECON countries in the various fields than the former system of primarily bilateral specialization which was limited to a few industrial branches. At the multilateral level 49 agreements - mainly in the engineering industry - have been concluded since the adoption of the complex programme.

Success or failure of the integration efforts can best be judged from foreign trade. The original intentions connected with the establishment of the agency which aimed at re-directing the foreign trade of the member countries have been achieved. The main trading partners of all COMECON countries, except Romania, are bloc countries. In 1962 intra-bloc trade reached a share of more than 64% of total foreign trade. Although its absolute increase continued to be very substantial, its percentage in the overall trade turnover of the various COMECON countries shows a backward trend. This is most apparent in the case of Romania where it decreased from 83% in 1950 to about 46% in 1972.

As at the time of the foundation of the COMECON, foreign trade between its member countries is still working on the basis of mutual exchange. In spite of intensive efforts the COMECON has not succeeded in finding a price basis for intra-bloc trade. The efforts to balance the great differences between price levels in the various member countries show only little progress. The question of the convertibility of the currencies in the COMECON area which is closely connected has been included in the complex programme but is treated with restraint by the Soviet Union for selfish reasons.

5. The following can be said in conclusion:

The COMECON has partly succeeded in some fields. This is particularly true for advanced specialization in the engineering industry. The ultimate objective, to become a counter-weight to the economic integration of Western Europe, could not yet be achieved. Up to now the COMECON has not succeeded in balancing the extremely wide economic, social and structural differences between its members. So far, national self-interest has had a negative influence on an effective co-ordination of the various economies. The desired effect of specialization and division of labour was only achieved where it was in the national interest. The fear of total dependence has heavily influenced the possibilities offered by a co-operation in production. Major integration was only achieved, in fact, in the trade sector. The objectives of the Soviet Union to establish as close economic relations with her COMECON partners as possible are furthered at present by the growing dependence of these countries on raw material. The USSR avails itself of this situation by requiring increasing investment aid for the development of further raw material sources and by demanding more supplies of industrial equipment.