

CONSEIL DE L'ATLANTIQUE NORD  
NORTH ATLANTIC COUNCIL

EXEMPLAIRE  
COPY

N° 171

N A T O C O N F I D E N T I A L

ORIGINAL: ENGLISH  
18th June, 1975

ADDENDUM to  
DOCUMENT  
AC/127-D/514

ECONOMIC COMMITTEE

ECONOMIC REVIEW OF EASTERN COUNTRIES: CZECHOSLOVAKIA

Addendum to Document AC/127-D/514, dated 10th June, 1975

Kindly add to the above-mentioned document the following:

- A summary
- A chapter entitled: "Prospects for economic changes" (new paragraphs 59 to 62)
- An Appendix C entitled "Economic Involvement in Development Projects in the CMEA Area".

NATO,  
1110 Brussels.

N A T O C O N F I D E N T I A L

CZECHOSLOVAKIA: THE ECONOMY SINCE 1971

Summary

1. By 1971 the Czechoslovakian economy had regained stability after the disturbances of 1967-1969. The rate of economic growth has been steady and slightly in excess of the 1971-1975 plan, although it remains the lowest among the East European countries of the Warsaw Pact.

2. Czechoslovakia's industry, which is one of the most advanced among the countries of the Warsaw Pact, is particularly dependent on foreign trade since a high proportion of its fuel and raw materials has to be imported and, in addition, international markets are essential if its manufactured goods are to achieve and maintain modern technological standards. The rise in world prices for fuels and raw materials therefore poses serious problems, since it has not been matched by a commensurate rise in the prices of the manufactured goods which Czechoslovakia exports.

3. Agricultural output has increased substantially and Czechoslovakia has become virtually self-sufficient in livestock products. Grain yields have been well above plan, but imports of about 1.5 million tons of grain a year are still necessary.

4. The economy continues to suffer from a shortage of labour and poor labour morale, although the rise in labour productivity has been almost up to plan.

5. The share of resources absorbed by investment programmes has been higher than intended, but while there has been over-spending on machinery there have been failures and delays in completing large, important projects. A substantially increased share of investment has been allocated to the fuel and power industries where more capacity is still needed.

6. The rise in monetary incomes has been keeping pace with the overall rate of economic expansion and it appears that in general the consumer has received a due share of the benefits from economic growth. Retail prices have been kept fairly stable and the party is pledged to continue this until the end of 1975. Czechoslovakia and the GDR have the highest living standards among the countries of the Warsaw Pact.

7. Although Czechoslovakia has been conducting an increasing share of her foreign trade with non-Communist countries, she remains behind all her Communist partners, except Bulgaria, in the proportion of trade with the developed

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West (26 per cent of her turnover in 1974). Czechoslovakia has no sizeable hard currency reserves on which she can draw and as her deficits with the convertible currency area have increased substantially in 1973-1974, and this is likely to continue, she may have to change her policy on the use of Western credits which in the past has been reluctant and limited. Because of the rise in world market prices, measures have been taken to tighten central control over imports from the West and, in addition, production of certain goods, e.g. textiles, which require high-priced Western inputs is being reduced.

8. Within CMEA Czechoslovakia has a particular interest in ensuring supplies of fuel, energy and raw materials even though the progressive revision of prices from 1975 onwards (a year earlier than expected) will result in a deterioration of her trading position in relation to the main suppliers, particularly the Soviet Union. It is possible that some of her present exports which earn hard currency may have to be diverted to the Soviet market, although in order to maintain technological advance and her competitive position as an exporter a greater involvement in trade with the West is likely to become a necessity.

9. We estimate that expenditures on defence have been absorbing about 4 per cent of Czechoslovakia's GNP each year and that the growth of these expenditures has been maintained at about the same rate as the overall growth of the economy.

10. The prospects for economic reforms in Czechoslovakia appear remote and a scheduled reform of internal prices, although increasingly necessary, is likely to prove difficult.

X. PROSPECTS FOR ECONOMIC CHANGES

59. Understandably enough, in view of the Soviet intervention in 1968-1969, the need for economic changes, while by no means taboo, is a subject which is treated with considerable reticence in Czechoslovakia's publications. The problems and shortcomings of the economy are frankly admitted but it is difficult to discover what, if any, measures are likely to be taken in the near future to secure improvements. Even when programmes are already in progress, for instance in the new wage system which has been gradually introduced since 1972, no comprehensible account of the main trends and intentions is easily available.

60. Because of the generally cautious attitude of the Czechoslovakian leadership, and the inhibiting influence of the Soviet Union, the prospects for any major economic changes have seemed remote. The sector in which gradual modification has been in progress was foreign trade where enterprises producing goods for export appear to have gained more autonomy, with some fifty of them engaging directly in foreign trade transactions in 1972. However, with the difficulties created by the rise in world prices from 1973 onward this trend has been reversed and central control tightened (see paragraph 58 above).

61. Towards the end of 1974 there was evidence of a debate on economic policy among the leadership in which advocates of reform, including the Slovak Deputy Prime Minister Durkovic, argued the need for greater delegation of responsibility to middle-level management, in order to secure improvements in production quality and lowering of production costs. These arguments appear to have been ineffective.

62. A major outstanding question is the feasibility of an internal price reform, which has long been scheduled for implementation at the beginning of 1976. The need for this is presumably becoming more and more urgent, since the rise in costs of materials imported from the West already necessitated a large budgetary subsidy in 1974 (see paragraph 43 above). In 1975 there are also higher costs for materials imported from CMEA countries (see paragraph 54). However, there will certainly be major problems in effecting a price revision which takes due account of these recent rapid changes, and also the further rises in CMEA prices which are scheduled to take place each year.

APPENDIX C

Czechoslovakia : Economic Involvement in Development Projects in the CMEA Area

1. Orenburg Gas Pipeline

The Czechoslovaks are constructing a 560 km section which runs from Alexandrov to Sokhranovka (in the USSR) and requires the crossing of the Volga and Don Rivers and the building of 22 compressor plants. This may well involve the Czechoslovaks in hard currency outlay to purchase the large diameter (1420) pipes from the West as well as the compressor stations and will engage 6000 Czechoslovak construction workers in the period from mid 1975-late 1978, when the pipeline is due for completion. Repayment will be made in additional Soviet gas supplies to the country. The original agreement on this project was signed in February 1974.

2. Ferro-alloy Production in the USSR

Czechoslovakia is to deliver construction equipment to a value of \$250 million, including diesel locomotives, trailers, tipper lorries and excavators for ore dressing combines near Kursk. Repayment will be made in the 1979-90 period in iron ore concentrate, pellets and various kinds of ferroalloys.

3. Asbestos Complex in the USSR (Kimbayev)

Under the agreement signed in 1973 Czechoslovakia is to deliver railway dump cars with a load capacity of 105 tons in 1974-76 and in return will receive deliveries of asbestos, beginning in 1980 and continuing until 1991.

4. Ammonium Phosphate in the USSR

Czechoslovakia is providing equipment for chemical production, metal cutting machines, pressing and forging equipment, and deliveries of Soviet ammonium phosphate are due to begin next year.

5. Czechoslovakia is not taking part in the construction of Ust Ilim (USSR) Pulp and paper complex, at least at this stage as she is a net exporter of cellulose.

6. In the period 1957-62 Czechoslovakia advanced about 200 million roubles (\$220 million) to Poland for expansion of mining of copper, sulphur and coal and participated in the construction of an electric power station in Romania, a copper mine in Bulgaria and in the extraction of potash in the GDR. Jointly with Poland, Hungary and Romania, it financed a cellulose factory in Braila (Romania). It also granted credits to the Soviet Union for the development of mining facilities to expand production of iron ore, copper, zinc, lead and bauxite.

7. The construction of an international electricity grid (the Mirline) and the "Friendship" Oil Pipeline were major joint CMEA investment ventures which did not however involve great flows of capital between countries, since each country was responsible for its own section.

8. Czechoslovakia has received a large credit from CMEA's International Investment Bank to modernise and expand the output of its 'Tatra' Truck Factory. As a result of modernisation Czechoslovakia will be able to considerably step up the production of these lorries for export to her CMEA neighbours.

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Czechoslovakia Relations with Eastern Europe

BULGARIA

1. Czechoslovakia plans to broaden co-operation with Bulgaria in the extraction of marble on Bulgarian territory. The Czechoslovaks will supply primarily technical assistance and machinery. In return, during the next three years, present Czechoslovak imports of 3500 cubic metres will be increased to 10,000 cubic metres. The marble will be used largely for construction of the Prague underground railway.
2. The assembly of Skoda-Madara lorries in Bulgaria is the result of co-operation between the Liberec Motor Vehicle Works (LIAZ) at Jablonec and the Madara Works at Shumen. Some of these 10-ton lorries are tipping vehicles and others are tractor vehicles with semi-trailers. The agreement for joint production envisages manufacture of rear axles in Bulgaria (30,000 this year). Half the assemblies for Skoda lorries will in the future be manufactured at the Madara Works and the other half will be imported from Czechoslovakia.
3. A specialisation agreement is coming into operation whereby Bulgaria will supply Czechoslovakia with a large number of automatic and semi-automatic cutting machines, while Czechoslovakia will produce gear cutting machines for Bulgaria.
4. Czechoslovakia has been particularly active in the construction industry in Bulgaria and in developing engineering and power resources, eg, she has delivered equipment for the Ruse I and Ruse II power stations and has also provided equipment for the Trajcho Kostov plant in Sofia, the Plovdiv plant and various hydro-electric plants in the country.
5. Czechoslovakia supplied equipment for the 'Medet' copper ore mining combine and took part in the construction of the mine and ore dressing plant, for which she is being repaid in supplies of copper.

GDR

1. An agreement on petrochemicals was signed between the two countries whereby, in the first stage of the project facilities for the production of 170,000 tons of ethylene and 90,000 tons of propylene will be built in Boehlen (GDR); while at the same time plants with production capacities for polyethylene and polypropylene will be built in Zaluzi (Czechoslovakia). A pipeline will join both installations through which ethylene from Boehlen will be sent to Zaluzi for further refining. A portion of the refined ethylene, in the form of polyethylene will be sent back to the GDR. For both countries this type of co-operation will mean, in time, a substantial increase in the production of synthetic fibres, plastics, tyres, conveyor belts, plastic sheeting and pipes.
2. The agreement signed in 1959 between the two countries to develop the potash industry in the GDR, whereby Czechoslovakia delivered machinery and equipment has enabled GDR to expand extraction of potash salts and has meant increased deliveries of the raw material to Czechoslovakia.
3. Joint development of the Port of Rostock - Czechoslovakia is supplying cranes and lifting equipment while the GDR is responsible for installing all the necessary electrical equipment. This will enable the port to handle ships of 100,000 grt and will increase the port's handling capacity from present 3,400,000 tons per annum (of which Czechoslovak goods comprise 1,300,000 tons) to 5,400,000 tons when it comes fully into operation in 1976.
4. An agreement signed in 1973 relates to the motor industry in the two countries. The AZNP Works in Mlada Boleslav, maker of Skoda cars, has plans to send half its production of engines (= 300,000 in 1982) to the GDR under a long term agreement and will be able to stop making gear boxes, axles and steering assemblies, which will be supplied by the GDR.

5. An agreement between 'Kovo (Czechoslovakia) and Elektrotechnik Export Import (GDR) has been concluded whereby Czechoslovakia will supply automatic telephone exchanges; Czechoslovakia will also manufacture 110 kv earth leakage cable while allowing the GDR's works to use its capacity for production of large transformers.
6. The potassium Combine of the GDR and the Magnesite Works of Bratislava (Czechoslovakia) are co-operating in the dressing of tin and tungsten ores. The co-operation is largely on the research side and testing of drilling equipment.
7. In product specialisation between the two countries the GDR specialises in lorries and containers, refrigerating units for rail wagons, thermo plate and rolled glass, machinery for bitumen surfacing of roads, combine harvesters, moving and loading machines, while Czechoslovakia specialises in producing air conditioning equipment, high grade sheet glass and glass bricks, concrete mixers, potato planters, rotation mowers and hop picking machines.

HUNGARY

1. Joint projects between the two countries include the electrification of the railway line between Komaron and Komarno (71 km). All the design work is Czechoslovakian. A joint station is to be built at Szob and Sturovo.
2. Co-operation exists between the Czechoslovak enterprise 'Hirana' and the Hungarian 'Medicor', whereby the Czechoslovak enterprise specialises in producing equipment for dental surgeries to cover the requirements of both countries; the Hungarian enterprise has discontinued this type of production and instead is concentrating on the production of incubators and operating tables. This co-operation is carried a step further by joint activity by the two enterprises in equipping hospitals in third countries.
3. The Hungarian 'Komplex' and the Czechoslovak 'Trancakta' foreign trade organisations are co-operating in the production of pig breeding stations. The Hungarians supply the complex engineering parts, while the wall panels and all other wood is being supplied by the Czechoslovaks.
4. 'Technoimpex' of Hungary and 'Invest' of Czechoslovakia are co-operating with Sveter of the Federal Republic of Germany for the building of slashing machines to modernise the Czechoslovak textile industry. 50% of the components come from the Federal Republic and 50% from Hungary (based on West German documentation) while assembly is in Czechoslovakia.
5. The two countries are co-operating with the Soviet Union in preparing for the construction of the Gabčíkovo-Nagyymaros system of Danube barrages. Preparations should be complete by the end of next year and work should begin in 1978, though it has been estimated that the work will take at least 9 years to complete. The project will improve navigation between Bratislava and Budapest and will incorporate the building of two hydro-electric power stations.

POLAND

1. In the sphere of metallurgical research - problems involving Monocrystals and metallic compounds are being resolved jointly by Polish and Czechoslovakian specialists, making different types of equipment available to each other, the eventual aim being application of methods to industry.
2. An agreement exists in the sphere of chemical production whereby carbon disulphide is produced in Poland and delivered to Czechoslovakia in return for Czechoslovak deliveries of polyvinyl chloride. This agreement signed in 1974 makes provision for deliveries to begin in 1977 and the agreement runs until 1985.

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3. In the sector of agricultural machinery Poland specialises in the production of potato shovels, purifiers and grain harvesters producing for herself and Czechoslovakia, while Czechoslovakia specialises in the production of potato sorting machines, rotary movers and other equipment.

4. In the machine tool industry, Poland concentrates on the production of machine tools to be used in railway engineering and single spindle lathes, while Czechoslovakia produces milling and tracer milling machines and hydraulic presses.

5. Poland provides a considerable amount of services to Czechoslovakia particularly in the construction sector. In 1974, Budimex, the Polish building enterprise was working on 12 investment projects in the country, including two major petrochemical combines, (Sloznaft in Bratislava and Spolena in Neratovice) a footwear factory, a power plant, a chemical plant and a meat combine. They have signed contracts to work on another 14 projects including a refinery and coal wharves at Chvaletice and Lovosice on the Elbe and two paper mills.

ROMANIA

1. Czechoslovakia has been active in construction work for Romania particularly in supplying thermal power plant and supervising its installation, eg the Arges 225 MW hydro electric plant and the Ludus and Craiova thermal plants with a total capacity of 600 MW. In the 1960's this power generating equipment represented about one third of the aggregate installation capacity of Romania's power plants.

2. The first major bilateral co-operation contract in the field of engineering was signed by Czechoslovakian and Romanian manufacturing firms in 1972. It concerned front driving axles for tractors, which the Brasov Tractor plant in Romania now makes for Czechoslovakia to a jointly elaborated design.

3. Romania produces, to Czechoslovakian documentation and standards, components for the TPZ automatic threading machines which has allowed Czechoslovakia to stop her own production of these components and rely on Romanian supplies.

USSR

1. In the current five year period (1971-75) agreements have been signed whereby the USSR has rendered or is to render Czechoslovakia technical assistance in designing and delivering equipment for four house construction plants with a total capacity of 8,000 apartments per year, in constructing the subway in Prague, in developing a second TV channel and colour television and in building an outer space communications station.

2. Co-operation in production of asynchronous electric motors is planned by Czechoslovakia and the USSR. In the next five year plan period (1976-80) plants in both countries will be modernised so that Czechoslovakia can produce 4 sizes of electric motors at Mohelnice, while the remaining four types can be made in the USSR.

3. Czechoslovakia is supplying the USSR in 1975-76 with a large brewery (output 650,000 hectolitres of beer per annum) and five smaller ones (capacity 50,000 hectolitres a year). As well as one very large plant (with a capacity of 1 million hectolitres per annum), it is also supplying four mineral water bottling lines.

YUGOSLAVIA

1. Czechoslovakia has concluded an agreement with Yugoslavia, which envisages mutual deliveries of \$50 million a year to a figure of \$600 million. Following a Czechoslovak credit to Yugoslavia of \$74 million (payable over 12 years at 5% interest per annum) Yugoslav enterprises will begin deliveries of zinc, lead, cadmium, silver from 1979 onwards. In the period before then Czechoslovak enterprises will begin to send coking coal, semi-finished iron and steel goods and other products.

2. The washing machine factory of Elektronska Industrija and the Czechoslovak enterprise Tatramar have concluded a five year co-operation programme on joint production of washing machines (50,000 in 1974).

3. A contract on long term Czechoslovak/Yugoslav co-operation in the production of electric, gas and combined electric and gas ovens - cookers was signed in June 1974 and the resultant products should go onto the market this year.

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