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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

REVIEW OF THE ECONOMIC SITUATION IN BULGARIA

Record of the meeting held on 27th April, 1967

Note by the Chairman

In accordance with the decision of the Sub-Committee(1), the Economic Directorate has prepared the attached final record of the meeting of 27th April, 1967 on the Bulgarian economy, which takes account of some modifications suggested by the United States Delegation.

(Signed) A. VINCENT

OTAN/NATO: R
Paris, (16e).

(1) AC/89-R/89

NATO CONFIDENTIAL

REVIEW OF THE ECONOMIC SITUATION IN BULGARIARecord of the meeting held on 27th April, 1967

The CHAIRMAN welcomed the presence of:

Dr. Czybulka, Ministry of Economics, Bonn
Mr. Granier, Ministry of Finance, Paris
Mr. Johnson, State Department, Washington
Mr. Strohmayr, State Department, Washington
Mr. Tuch, Deputy Chief of Mission, United States Embassy, Sofia

2. The CHAIRMAN thanked the German and the Greek Delegations for the papers they had prepared as a basis for discussion(1) as well as the United States Delegation, which had submitted comments on the German note(2). He then called upon Dr. Czybulka to introduce the German paper.

3. Dr. CZYBULKA opened the discussion with a general introduction into the scope and development of economic reforms in Bulgaria, which he described as being in a transitional period. The general concept follows that of the Czech and the Soviet models with, up to now, rather limited results. The lack of professional knowledge and training of those who are responsible for the practical implementation of the reforms, remains the key problem.

4. The speaker then referred in detail to the Congress held in Sofia on 28th-30th March, 1967 on problems of the Bulgarian agricultural co-operatives. The Congress had the following results:

- it produced a new statute which was, however, but a codification of procedures followed in past years;
- it established a Central Union of Co-operatives which resembles regulations in Rumania. A similar body already exists in Poland and one is planned in Hungary and in the USSR;
- it confirmed the right of members of the co-operatives to draw a pension. No further details have yet become known;

(1) German note: AC/89-WP/210; Greek note: AC/89-WP/210/2
(2) AC/89-WP/210/1

- it sanctioned the private sector within the co-operatives which in turn should provide machinery, if needed, to the members of the co-operatives;
- it pronounced the right of the co-operatives to buy directly from light industrial enterprises which base their production on agricultural output. This seems to have been styled after the Soviet Zone of Germany.

5. The CHAIRMAN enquired about the influence of other East European models on the Bulgarian economic reforms and the differences which might or might not exist among them.

6. To this Mr. TUCH replied that the top leaders in Bulgaria were, by now, firmly committed to the economic reforms which were going ahead at a faster pace than could have been expected a year ago. He did not see any essential difference between the Bulgarian reforms and those adopted in the other Eastern European countries (always excepting Yugoslavia). There existed variations in emphasis as well as in specific provisions and Bulgaria had to face certain problems which other Eastern European countries might not have to the same extent, such as modernisation of agriculture, dependence on foreign trade and the rôle of tourism.

7. The speaker pointed out that the required modernisation of industry and agriculture in Bulgaria depended more upon foreign trade than was the case in other Eastern European countries. Bulgaria was economically very much dependent on the Soviet Union from which she had received, since 1946, about 1.8 billion roubles in assistance. In contrast to developments in recent years, the Bulgarians were now planning to increase their trade with Communist countries proportionally with the overall increase in trade. However, Bulgaria would have to turn to the West for sophisticated equipment and know-how. By facilitating such trade, the West would perhaps be able to exercise some liberalising influence.

8. The GREEK REPRESENTATIVE questioned this possibility and asked how far the Bulgarian leaders really wanted to detach their country from the Soviet Union and whether the Russian economic and political influence, which was increasing, would permit such a move.

9. Mr. TUCH agreed that the Bulgarian leaders did not want to detach themselves from the Soviet Union. However, they did want to modernise their economy. In turn, this required an economic and intellectual liberalisation which was in the Western interest. The process was bound to be a long and painful one, although considerable progress had already been

made if the situation was compared to the one prevailing a few years ago. The GREEK REPRESENTATIVE remained sceptical on these possibilities and pointed out that while liberalisation was uncertain, it was clear that economic relations with the West generally strengthened the Bulgarian economy.

10. Mr. GRANIER drew the attention to the fact that, although there was, under the new economic system, a tendency to decentralise, the banking system was reflecting a reverse trend. The freedom given to the enterprises had been checked by the new regulation of 30th December, 1966, which firmly established the central power in the financial field.

11. The CHAIRMAN pointed out that the economic reforms in the Eastern European countries generally enhanced the rôle of the banking system. Mr. TUCH did not think that the regulation referred to should be interpreted as a development where one hand takes away what the other had given. The Bulgarians themselves presented it as a measure of rationalisation rather than centralisation; in the past, there had often been a shortage of funds available for short-term loans and at the same time, too large funds available for long-term loans. The new regulation aimed at allowing greater flexibility.

12. The CHAIRMAN asked if there had been any rise in consumer prices as a result of the different measures taken under the new economic system. Mr. TUCH replied that there had not been any change in the level of retail prices in the past year. Although as of January 1967, 65% of the Bulgarian economy was working under the new system, he thought that it was still too early to say how it would eventually affect the man in the street. The Bulgarians affirmed that no increases would be allowed but considerable concern about such a possibility was felt.

13. The NETHERLANDS REPRESENTATIVE remarked that the economic experiment had been going on for some time now and he thought it peculiar that nothing could be said about the possible results. He asked if the experts were not a bit too cautious in their reluctance to forecast and he pointed to the over-fulfilment figures for cotton fabrics contained in the Greek paper.

14. Dr. CZYBULKA replied that the increase in textile production probably reflected returns on increased investment rather than the effects of the economic reforms. Mr. TUCH thought that some progress could reasonably be expected. Among the main problems facing the Bulgarians were the low labour productivity and unenterprising management. The authorities were aware of these problems. An Institute to train management was set up in Sofia with United Nations assistance. After a year or a year and a half, it was just too early to draw any conclusions on the effects of the economic reforms.

15. The CHAIRMAN referred to the rather impressive industrial progress Bulgaria has been able to achieve in the past years, to which Mr. TUCH replied that there was a real danger that this could not continue at the same rate. If the Bulgarian planners wanted to increase industrial production at a similar rate in future, imports from the West are necessary. The trade deficit with hard currency countries which apparently amounted to US \$300 million in 1966, is however difficult to overcome: without imports of western equipment and know-how, Bulgaria will not be able to achieve such improvement of quality of these manufactured goods, which would make them marketable in the West. Agricultural export production, on the other hand, cannot be much increased and even if it could, possibilities of increased sales in the West are limited.

16. Mr. GRANIER confirmed this point and illustrated it by the problems France is encountering in her trade with Bulgaria. In view of the high cumulative indebtedness of the Bulgarian economy, he enquired whether the Bulgarian Authorities had approached the German Authorities and asked for a payment moratorium(1).

17. The CHAIRMAN enquired about the rôle tourism could play in bridging Bulgaria's foreign currency deficit. Mr. TUCH replied that the \$40 million which the Bulgarians claim to have gained from tourism in 1965 was not enough to cover the shortage in foreign currency. He underlined the liberalising effect the tourist trade was exercising on the Bulgarian population of 8 million, which annually meet about 1 million foreigners. Many of them are accommodated in private homes or guest houses and some 60% reportedly come from the West.

18. The BELGIAN REPRESENTATIVE referred to the contradiction created by the fact that Bulgaria had to rely on the support from the West in her desire to modernise her economy and was unable to get this support from the Soviet economy to which she was tied. He thought that the indebtedness of Bulgaria had reached a point where her credit-worthiness had become doubtful and he wondered whether a similar accumulation of debts to the West could be anticipated in other East European countries. The FRENCH REPRESENTATIVE pointed out that Bulgarian purchases in other countries of a certain importance, which were not fully compensated by sales, required special authorisation by the Government.

(1) To this the German Representative replied at the meeting of Economic Advisers on 5th May that no such official approach had been made.

19. The UNITED STATES REPRESENTATIVE reaffirmed in this connection the United States' opposition to the extension of long-term credits by NATO countries to Eastern European countries. He was asked by the Chairman if, since President Johnson's speech of 7th October last year, there had been any further evolution of the United States commercial policy towards Eastern Europe. Mr. TUCH replied that the East-West trade bill was going to be introduced into Congress again. Prominent American trade organizations were also supporting this type of bridge building, although there is some opposition in the Congress to trade with Communist countries at this time. The President had also authorised the Export-Import Bank to guarantee loans of up to five years to those Eastern European countries which did not already enjoy this privilege (Bulgaria included), and had ordered removal of over 400 items from the list of strategic items, the export of which had previously been prohibited to Eastern European countries.

20. Answering a question by the Netherlands Representative, the GERMAN REPRESENTATIVE said that the suggestion contained in paragraph 70 of the German paper to "study in detail" the problem of how to make Bulgarian products marketable in the West should be interpreted as meaning that such studies should not necessarily be undertaken in the Committee of Economic Advisers, but by the individual NATO countries. An exchange of information in NATO could follow. The UNITED STATES REPRESENTATIVE was in favour of keeping in mind the idea of carrying out such studies in NATO.

21. The CHAIRMAN asked if Bulgaria had shown any interest in co-operating with the West in international organizations. Mr. TUCH replied that Bulgaria had recently applied for the status of observer in GATT and for membership in the FAO.

22. The discussion then centred on the problem of Bulgaria's relations with the other Communist countries. Mr. TUCH remarked that Bulgaria was benefitting from association with COMECON and had been able to build most of her industrial basis with the help of the other COMECON countries, particularly the USSR. Bulgaria could, with the assistance of COMECON, find markets for products she would not have been able to dispose of in the West. Leaving the Soviet Union aside, the Soviet Zone of Germany and Czechoslovakia were Bulgaria's main trading partners. There were no signs of Bulgaria going the way of Rumania and economic as well as political reasons made such an evolution improbable. Bulgaria had certainly assured herself of Russian acquiescence to her efforts to develop trade with the West. Nevertheless, such trade should be encouraged because it exercised a liberalising influence. The GREEK REPRESENTATIVE voiced some doubts concerning Bulgaria's intentions in her flirting with the West. He thought that, in dealing with the West, Bulgaria was trying to profit from both sides while remaining firmly on one.

23. The CHAIRMAN then read out the conclusions contained in C-M(65)80 and asked what modifications the experts considered necessary. The GREEK REPRESENTATIVE suggested that a paragraph be included on Bulgaria's response, in the past (two) years, to the willingness shown by NATO countries to expand trade with Bulgaria. The BELGIAN REPRESENTATIVE thought that the German proposal to study in detail the question of how to facilitate the sale of Bulgarian products in the West should be included in the findings of the Committee, as well as the problem of Bulgaria's growing indebtedness.

24. It was decided to leave it to the Secretariat to suggest conclusions upon which member countries could comment. The CHAIRMAN thanked the participants for their contributions to the discussion, of which a record would be submitted to them for approval. It was agreed that the Economic Directorate would prepare a synthesis of all information available for the Sub-Committee which might decide to send a shortened version of it to the Council.