

CONSEIL DE L'ATLANTIQUE NORD  
NORTH ATLANTIC COUNCIL

~~SECRET~~  
EXEMPLAIRE  
3/11/67

N° 189

ORIGINAL: ENGLISH  
5th September, 1967

~~SECRET~~  
NATO SECRET  
WORKING PAPER  
AC/89-WP/227

SUB-COMMITTEE ON SOVIET ECONOMIC POLICY  
THE PRESENT POSITION OF THE COUNCIL FOR MUTUAL  
ECONOMIC ASSISTANCE (COMECON)

Note by the German Delegation

Short Summary of Contents

After the failure of Khrushchev's attempt in 1963 to reach the optimum aim in the extensive COMECON market - i.e. to create a central economic plan and supra-national authorities - Moscow has increasingly placed the accent on bilateral relations. This means that the USSR has to take the interests of each COMECON partner more into consideration than some years ago. Moreover, the COMECON countries are no longer prepared to have their economic interests represented collectively outside the Soviet bloc - which means in fact under Soviet pressure, which still exists.

OTAN/NATO,  
Paris, (16e).

NATO SECRET

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International Economic Co-operation in East and West

The methods of economic co-operation within a group of countries having a free market economy, on the one hand, and within a group of countries having a government-controlled economy, on the other hand, will necessarily differ widely. Normally, there is a steady flow of capital, labour and goods between countries having a free market economy. Co-operation takes place at the level of the various economic units. General economic policy makes use of specific arrangements such as common market regulations. Agreements are made between the major industrial branches which lead to sharing-out of markets, the limitation of future capacities etc. At the lowest level, the individual enterprises co-operate directly as independent elements of the economy.

2. Co-operation among countries having a government-controlled economy - these countries do not use the word "integration"-is necessarily centrally controlled. Even though lower levels of the economic hierarchy have also been permitted to take part in this co-operation, their initiative has been very limited. However, it may be expected that, as a result of the economic reforms, these lower levels will play an increasing rôle in future.

Optimum Solution and Real Situation in the East

3. From the point of view of a government-controlled economy, the optimum form of economic co-operation is the common central economic plan for all partner countries. In view of the existing division of power in the Soviet bloc, such a solution would at the same time offer the most favourable conditions for the dominating power, i.e. the USSR, to assert its will. At the institutional level, this unified planning would correspond to supra-national authorities which would represent COMECON as a regional international organization vis-à-vis the non-COMECON countries. It was these economic and procedural concepts which led to the establishment of COMECON in 1949, i.e. at a time when the political, military and economic supremacy of the USSR was uncontested while the Soviet Union herself was ruled by an absolute dictatorship.

4. This form of co-operation - the optimum solution from the point of view of strict government control - has never been realised. In the first years after the establishment of COMECON neither the theoretical nor the practical technical conditions for such planning centralism existed; the "new course" of 1953 and the revolutionary movements in Poland and Hungary in 1956 paralysed the COMECON's activities generally. When the first possibilities for economic co-operation in fields other than foreign trade appeared in 1958, this was initiated very cautiously through the "permanent commissions" which were designed to ensure the participation of each member in factual and sometimes even only in technical decisions. Thus started a development which offered

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at least a certain guarantee that the partners would be consulted by Moscow. The results did not come up to expectations. However, it should have been clear from the beginning that satisfactory results could only be expected after some time had elapsed. Khrushchev was determined to reach the optimum aim of cooperation as quickly as possible. For this purpose, the executive organ, the "Meeting of the Representatives of Member Countries in the Council" was replaced at the XVIth Council meeting on 6/7 June 1962 by the "COMECON Executive Committee" which was to ensure a streamlining of the supreme COMECON authorities. A Central Planning Bureau was then to be established within the Executive Committee.

5. This optimum solution - the creation of a central COMECON plan and the corresponding supra-national authorities - failed in the summer of 1963, and the Soviet Union ceased to object one year later. The decision against the central plan and the supra-national authorities was due to protests by Rumania and probably other countries as well. Rumania's objections were directed against the principle to fix the position of each partner within the framework of the economic and especially the industrial division of labour on the basis of the economic level attained by each partner at that period. Rumania considered that this policy would prejudice the development of a diversified industrialization of her own.

6. The result of this hard discussion was very serious. Moscow was now compelled to give much more consideration than before to the special interests of each partner and to allow them to participate in the concrete cooperation in various industries. The result was that from 1963/64 Rumania withdrew from cooperation in the roller-bearing industry and the rolled-stock production. However, no other country has followed Rumania up to now. At the same time, Moscow became extremely cautious in proposing such large-scale cooperation projects, and no further technical commissions have been established. Moreover, Moscow now followed a pragmatic bilateral policy and tried to preserve its own interests in this way. It was to Moscow's advantage that the partner countries whose economic structure is of special importance for Soviet economic developments - the Soviet Zone of Germany and the CSSR - also count to a large extent on the Soviet Union for her support in foreign policy matters. At that time Poland was also ready to cooperate more closely with the USSR for reasons of foreign policy, and Hungary by reasons of domestic policy. The Soviets tried to commit Bulgaria by granting credits. Thus, although Rumania's action has hardly affected the practical cooperation between the other COMECON countries and the USSR, the extension of Soviet economic relations with Eastern Europe began to stagnate visibly. Of all the basic conflicts, the routine coordination of the production programme within the various branches was least affected, but only meagre results were obtained as far as concrete division of labour in industry is concerned.

7. Foreign trade remains the strongest economic tie among the COMECON countries, but especially with the USSR. Long-term trade agreements with strict commitments regarding the delivery of established quotas, concluded in accordance with planned production targets, determine from the outset the economic capacity of all concerned to a high degree. Their dependence on the USSR for raw material supplies and an assured market for capital goods determine the relations of the more industrialised COMECON members with the USSR and leave them only little latitude for an independent trade policy. In view of the existing power situation, the customary routine which has now been followed for almost 20 years seems to appear not too unprofitable even to the rationally-thinking top-level managers in the industrialised countries outside the USSR. If this way is consistently followed, it will be possible to reduce costs by mass-production methods.

#### Bi- and multilateral Co-operation

8. A review of the results of multilateral and bilateral agreements, arrangements and actions in the economic field within the Soviet bloc, taking into account earlier developments and the present situation, shows the following general picture:

##### (a) Principles of Multilateral Co-operation

COMECON has not reached its optimum aim to become a single large market with a central economic plan and supra-national authorities. Under the conditions prevailing in the world and in the Soviet bloc, this is now to be expected less than ever. This estimate of the situation does not exclude the possibility that Moscow will renew its efforts to reach this goal when more favourable circumstances present themselves. Since supra-national authorities did not exist, no common decisions were - legally speaking - taken which would have committed all member countries to pursue one and the same economic policy in general or in certain fields. Formally speaking, the common decisions were recommendations which have been more or less followed by the non-Soviet members, depending on the general status of the Soviet hegemony or their special degree of dependence on Moscow. Decisions were only taken with respect to the work of the COMECON agencies, such as the creation of new commissions, the determination of work programmes, deadlines, statutes etc., in exceptional cases also with respect to genuine common projects such as the pipeline and the high-voltage grid.

The reorganization of COMECON and the beginning of its practical work in 1958 under new political conditions have been guided theoretically by the right of say of all members and special consideration of their own interests.

Since even this first phase of "practical" work has not gone much beyond theoretical preparations, the right of the members laid down in the Moscow Declaration of 30th October, 1956, to take their own interests as the basis of co-operation has not become fully effective up to now. The diverging interests became all the more clearly apparent, the more the common projects were realised.

(b) Co-operation in practice

The tasks given to COMECON consisted of common economic planning, division of labour and specialisation of production, co-ordinated intra-bloc trade with corresponding payments systems and - during the last few years - discussions about certain reforms of the Government-controlled system.

Historical Development

9. Up to 1956 each country, under a forced industrialization programme, had tried to build up and expand as many industrial branches as possible, to which Moscow agreed and only intervened if these measures were contrary to its own interests; as from 1958 (theoretically already from 1956) the plans were to be co-ordinated before they came into force.

10. This multilateral co-ordination took place in the various "permanent commissions", i.e. primarily in the special commissions", for the various industrial branches, as well as in commissions of a more general or functional nature such as the Finance or the Standardization Commission etc. The plans, which had hardly ever been finalised on schedule were now delayed even more. In this connection it has to be taken into consideration that industrial expansion in most COMECON countries depended and still depends primarily on Soviet raw material deliveries, and that Moscow is of the opinion that there is only one power within COMECON capable of creating a fully-developed, self sufficient economy - the USSR.

11. Considering the size of the country, the extent of its resources and its strength compared with the other COMECON members, this assertion indeed seems justified. Thus, one can speak more of an integration of the non-Soviet economies into the economy of the USSR than of the mutual integration of all member countries. In principle, the planning of the non-Soviet countries can only supplement Soviet planning, which intends to develop industrial production in the Soviet Union according to her own aims without considering the interests of her COMECON partners. Accordingly, the

most important agreements are those which have to be concluded between Moscow and the other partners. Up to now, no partner has been able to evade these agreements. This situation will continue for the foreseeable future since Moscow's political and military superiority and the economic dependence of the other COMECON members on Moscow permit no other solution.

Bi- and Multilateral Procedures used in the Division of Labour

12. All multilateral agreements on economic - especially industrial - division of labour within the framework of the permanent commissions have met with two difficulties. On the one hand, it is difficult to interest all COMECON members in a specialisation programme for all industrial branches, and, on the other hand, it is also difficult to conclude concrete agreements, although a basic programme had been set up when the principles of an international division of labour were laid down at the XVth Council meeting.

13. Because of Rumania's protest against the procedure of establishing the programmes for the specialisation and division of labour for the future on the basis of the present industrial level, the "interest formula" which has always been repeated since the end of 1956 has meanwhile become so effective that in some industrial branches new organizations for the practical implementation of the division of labour have been established whose members are in fact limited to the interested parties; according to their statutes they are not even COMECON organizations although they carry out the COMECON's original intentions. This applies to "Intermetal", an organization for co-operation in the field of rolled steel, as well as to the organization for co-operation in the field of roller bearings. Both organizations take binding decisions on the division of labour which are respected by their members.

14. Up to now, experience with multilateral and bilateral co-operation with respect to specialisation and division of labour have not been very encouraging. As long as it was only a matter of settling the conditions of co-operation, multilateral co-operation was not unsatisfactory. At first, stock had to be taken of existing production capacities, including all technological details. This stock-taking was entirely possible on a multilateral basis although the USSR was hesitant in supplying information. Agreements on the creation of new production branches partly led to concrete results, especially where related production branches were concerned, such as the plastics industry. Difficulties began immediately when some countries were asked to discontinue certain

production lines. At the multilateral level, the proving and testing stations for machinery and equipment which was to be recommended for production (such as for agricultural machinery near Prague) were a success. However, such a procedure is only practicable in very few branches. As a result of the tests in the agricultural machinery sector it was also possible to come to agreements on a breakdown of production according to certain types to produce certain models in common. However, most agreements on specialisation and division of labour were only of a general nature, while no concrete measures were taken. For a long time already it had been the general belief that concrete measures of specialisation could only be negotiated through bilateral commissions, but even this method showed only modest results. Exchanges of scientific and technical know-how and experience had been arranged by the commissions concerned from the beginning. There can be no doubt that many a technically backward country thus acquired - almost free of charge - information which is normally the final result of a long period of development. In this connection, however, the technological backwardness of the USSR compared with other countries was a handicap: the USSR had not much to offer to the Soviet Zone or the CSSR. In the final analysis one can say that although the multilateral commissions have done useful work in the preparation and clarification of the conditions required to find a common solution for certain basic specialisation and division of labour problems, practical results - however insignificant in general - have been obtained only on a bilateral basis.

Bi- and multilateral procedures with respect to intra-block trade

15. The most important factor for the economic cohesion of the Soviet block - intra-block trade - is clearly based on bilateral agreements. It has been the task of the multilateral COMECON commissions for foreign trade to establish general principles, such as the generally-binding terms of delivery (valid as from 1 January 1958). The possibilities of delivery and the raw material resources have probably also been clarified on a multilateral basis. The specific role of foreign trade in a strictly organised, government-controlled economy also has a certain effect on the problem of multilateral or bilateral arrangements. Foreign trade is not intended to exploit world market price advantages for sales and purchases but is primarily designed to provide the necessary goods for fulfilment of the plan. Because of the overwhelming economic supremacy of the USSR compared with the other COMECON members, especially her importance as a supplier of raw materials and buyer of capital goods, Soviet trade plays a decisive role within intra-block trade. Since the mid-fifties, an important part of the foreign trade of the other COMECON members has been tied to the Soviet Union - the peak having been reached in the late

fifties - but even today the share varies between 30 and almost 50%. Irrevocable long-term agreements valid for five years or more ensure that the volume and selection of goods produced within COMECON are permanent factors of individual economic plans which are thus directly related to the plan of the Soviet Union. The principle that the buyer of raw materials grants credits to the raw material supplier for the production of raw materials has been applied in some cases in the past and will be applied even more extensively in future, thus tying the European satellites even more strongly and over a longer period of time to the USSR.

16. The centrally-administered economy of the Soviet type has raised the balancing of the goods exchange volume to the level of a principle which has for the most part been respected in practice. This very method has made schematic bilateralism almost inevitable. The rigidity of this principle soon showed very unfavourable effects on intra-bloc trade, for instance in cases where goods were delivered in exchange which were not wanted by the receiving country. This led to a limitation of the foreign trade volume or at least prevented its rapid expansion. This situation, which was clearly recognised by the leading economic functionaries, gave rise to an initiative to base intra-bloc trade on a multilateral basis, i.e. to make it more flexible by means of clearing payments via the COMECON bank (International Bank for Economic Co-operation). However, after some cautious attempts which took place no less than three years ago, the results of these multilateral clearing experiments are rather poor. Although it will probably be attempted to make this instrument more effective, it will not be possible to overcome the decisive barrier without making the rouble fully convertible. For several reasons inherent in the system, however, this seems unlikely. It may be expected that several measures will be taken within the framework of the economic reform programme, which might contribute to a greater degree of flexibility in foreign trade and thus to a certain amount of multilateral trade arrangements. However, in view of the present trends to relax the rigidity within COMECON, the Soviet Union will probably try to strengthen bilateral ties.

#### Economic Reforms and Co-operation

17. The necessary clarification of the principles of the economic reforms which are being carried out in all countries (except Rumania) requires multilateral discussion. Especially the recent Soviet criticism of the reforms in Yugoslavia, which included the institutions of the state, the party and the economy, shows how strongly Moscow objects to any hasty and excessive departures from the Soviet line. The example of Yugoslavia is, however, not typical of developments within the Soviet bloc - Yugoslavia is still to some extent a non-committed country, has a special status within COMECON, and her reform plans go much further than those of the other COMECON members. However, the more

substantially the internal structure, the organization and the trade relations of the member countries are affected by the economic reform measures, the more important are continuous contacts and co-ordination. Especially the problem of price formation cannot be solved by each partner in isolation and without consideration of the "neighbours".

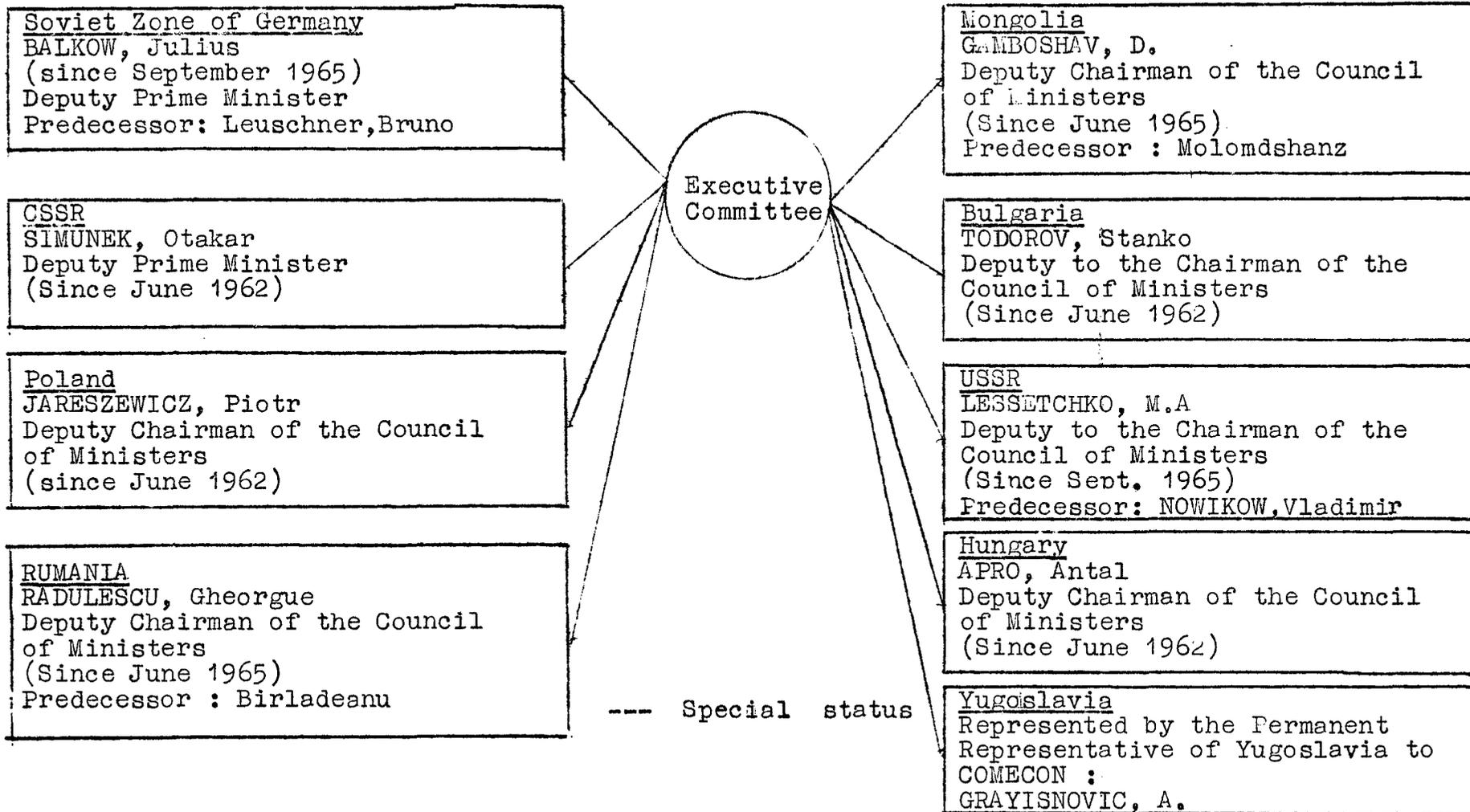
The Rôle of COMECON in International Economic Policy

18. In view of the general situation it is unlikely that COMECON will appear an organization vis-à-vis other international organizations or individual countries. This does not exclude the possibility that it might send observers or representatives, but there will be no common action on decisive problems. Today, the COMECON members do not wish, as far as their economic interests are concerned, to be represented collectively outside the Soviet bloc - which would mean under the still existing Soviet pressure.

Conclusions

19. Under a variety of aspects, the development and the present situation of the relations within COMECON show that, at the present stage, decisive weight must be attributed to bilateral relations, especially as far as the ties of each COMECON member with Moscow are concerned. This is particularly true since, owing to the failure of integration, foreign trade is now the strongest economic tie within the Soviet bloc and since it is in the nature of a centrally-administered economy that trade relations play a rôle in certain fields, such as the constant efforts to organize a division of labour by including specialised organizations which are formally not part of the COMECON, as well as, in the conflicts - very serious at present - about reforms of the system and other basic questions.

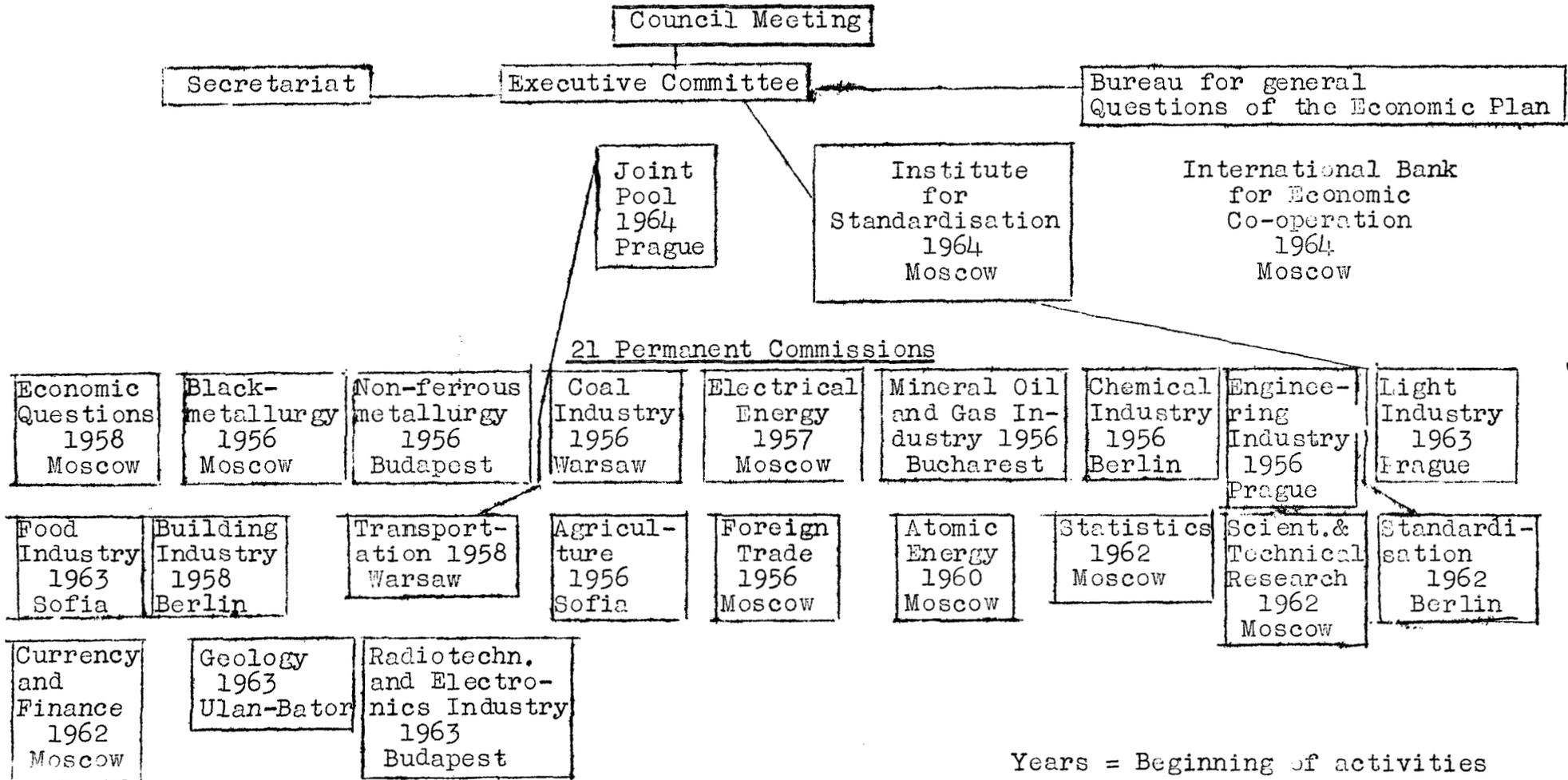
THE PERMANENT REPRESENTATIVES OF THE COMECON MEMBER COUNTRIES IN THE EXECUTIVE COMMITTEE



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ORGANIZATION OF COMECON



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Sections or Permanent Working Groups  
Temporary Working Groups, Groups of Experts