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THE EFFECTS OF THE EVENTS IN CZECHOSLOVAKIA ON THE  
SOVIET BLOC ECONOMY

Note by the German Delegation

SUMMARY OF CONTENTS

The economic performance and capabilities of the Soviet bloc countries were initially hardly affected by the invasion of Czechoslovakia and the measures connected with it. It must be expected, however, that the Soviet Government will try, as in the CSSR, to obtain greater influence than in the past on the domestic economic policy, especially the reforms, as well as on the external trade relations of the various countries.

2. Cautious measures of rationalisation within the meaning of the reforms will continue. Any basic relaxation of the central planning system and the adoption of a system of indirect controls with considerably greater independence for the enterprises and a certain latitude for elements of a free market economy will probably be opposed by the USSR. Similarly, Moscow will not permit the trade with the West to be extended at the expense of trade with the Soviet bloc, especially with the USSR. Bloc autarchy will thus be maintained.

3. It may be expected that these trends will be encouraged by an expansion of those branches of the economy which are useful for the integration by building up the Soviet merchant fleet and possibly also by an exchange of manpower (without the participation of the USSR).

4. In view of the increased international political tension it is entirely conceivable that the Soviet Union will raise its defence expenditures beyond the rate of growth of its Gross National Product.

A. THE DIRECT EFFECT OF THE SOVIET OCCUPATION ON THE ECONOMY OF THE CSSR

5. The economic performance and capabilities of the Soviet bloc countries were initially hardly affected by the occupation of Czechoslovakia and the measures connected with it. Nevertheless, certain consequences for the countries

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outside the CSSR cannot be excluded. The loss of working hours and slower work in the CSSR may have had the result that certain inter-COMECON deliveries were not made on schedule. However, the extent of such losses should be very small. The economic growth in the CSSR during the first half of 1968 was already lower than during the first half of 1967, and the average rate of growth during the second half of 1968 can be expected to be even smaller, but Czechoslovak deliveries to the other COMECON countries were probably less affected by this decrease than the economy at home.

B. THE EFFECTS ON INTRA-BLOC TRADE

6. Soviet claims similar to those made on the CSSR - increasing influence on her internal affairs - will be made in future, although in a different form, concerning other countries of the Soviet bloc and will have considerable consequences for their economies. This will affect the commercial links of these countries with Moscow and their own efforts to reform their economies. Although Moscow had tried in recent years to strengthen and improve the economic relations - especially its own - between the COMECON countries primarily on a bilateral basis, it has nevertheless been compelled to encourage multilateral direction and control relatively cautiously and mostly through well-established routine channels. However, already at the beginning of 1968, there were signs that Moscow was determined to revert to a stricter policy within COMECON. A remark made by Mr. Ceausescu before the invasion of the CSSR could be interpreted in this sense.

7. After the invasion, Moscow's new trends became much more clearly apparent. First of all, they revealed the priority given to close trade relations between the various COMECON countries and primarily with Moscow. This may be due to Moscow's fears with respect to the future handling of Czechoslovakia's foreign trade by a reformist government. Moscow may have assumed that the reformers more or less had Yugoslavia's model in mind, hardly one-third of whose foreign trade is with the Soviet bloc, and of this only one-tenth with the Soviet Union, instead of two-thirds and one-third, respectively as is usually the case. Yugoslavia's foreign trade orientation is regarded as an attempt at separation from the community of socialist countries. If, in the case of the CSSR, which had so far not departed quantitatively from the usual model (COMECON 66.5% in 1967, of which 34.7% USSR) Moscow considered a further expansion of foreign trade and the entire Czechoslovak foreign trade relations with the West undesirable, then this does not necessarily mean that Moscow invariably rejects any expansion of trade with the West as a matter of principle. The Soviet view, however, is that a certain quantitative limit which follows the "usual model" should not be exceeded and that a country with such an unreliable political leadership as the CSSR should not be permitted to increase the non-COMECON share in its foreign trade.

8. In general, the share of the Soviet bloc countries on the one hand and the industrially developed capitalist countries with a free market economy on the other hand in the foreign trade of the COMECON member countries has been relatively stable for many years. There were no substantial changes, except for Rumania which has been consistently turning towards the industrially developed West since 1959. Two countries have always been tied particularly closely to the USSR - the Soviet Zone of Germany and Bulgaria (1966: Soviet Zone 41.4%, Bulgaria 51%). In the Soviet Zone, the share of Soviet trade rose even further in 1967 (to 42.2%). The detailed agreements on economic co-operation concluded between the USSR and the Soviet Zone in the recent past seem to indicate that an attempt is to be made to avoid a decline of this share by a more careful division of labour, although it will be difficult to maintain the existing very strong commercial links between the two countries in view of the range of commodities on either side.

9. It results from the discussions between the USSR and the Soviet Zone as well as the CSSR that for about one year the USSR has tried to alter the range of commodities in the sense of increasing her exports of producer goods, especially machinery and equipment, and a correspondingly lower share of raw materials and food products. This trend is, however, also a normal consequence of the growing industrialisation of the USSR. A similar trend exists in the foreign trade of other COMECON countries - whose industry has reached the same or a lower stage of development - with their more developed COMECON partners.

10. The USSR is still determined to maintain Soviet bloc autarchy. For this reason, she will continue her efforts to obtain credit for her commodity imports from the various COMECON members so as to open up her raw material deposits; in other words, to ensure the prefinancing of her raw material deliveries. The two most important creditors up to now have been the Soviet Zone of Germany and the CSSR. It is by no means clear whether the present unfavourable economic situation in the CSSR will compel the USSR to abandon this procedure. Most probably it will not be possible to change the existing agreements sufficiently quickly. The USSR may perhaps grant more favourable conditions for the period 1971 to 1975, to the extent that the old agreements are not fully liquidated during this period by Soviet deliveries.

#### C. SOVIET BLOC AUTARCHY

11. A convincing illustration of the continuing bloc autarchy in the coming years is the opening up of further mineral oil and natural gas reserves in the USSR. The same conclusions may be drawn from the - at present not

unsuccessful - Soviet agricultural policy: the USSR will be able to produce grain in such quantities that the requirements of the Soviet bloc countries can be met or at least that the Soviet Union can take over a higher share than before in the grain imports of these countries.

12. Moreover, Moscow can note with satisfaction the existence of certain conditions in East/West trade which seem to indicate that the other COMECON members will by no means be easily able to get rid of the commercial ties which bind them to the USSR and the bloc, unless genuine revolutionary trends break through in the various countries; this, however, can hardly be expected for the near future after last year's events in the CSSR.

13. At present moreover, these countries are hardly able to offer the West any acceptable goods in exchange for its deliveries of investment goods. The critical debt line will now be reached relatively quickly. The difficulty of increasing East/West trade would become even more apparent if all COMECON countries except the USSR were to follow this trend particularly actively. For, the industrially developed West might be prepared to make available sufficient money for the credits required by one or two of these countries, but hardly more. Moscow, however, wants to avoid any excessive indebtedness of a COMECON country vis-a-vis the West since it believes that this will give rise to the danger of future political dependence on the West. The CSSR tried already in the first half-year of 1968 to reduce her indebtedness towards the West by limiting imports from the West and expanding her exports to western countries.

#### D. ADDITIONAL INSTRUMENTS OF INTEGRATION

14. As far as Moscow's relations with the CSSR are concerned - and this applies in principle also to the relations of the other COMECON countries with Prague - one wonders what these countries will be able to do to repay the amounts owed to the CSSR. It seems hardly probable that foreign currency will be released for this purpose, except possibly small amounts via the COMECON bank. Moscow might make an effort to deliver as rapidly as possible and on acceptable conditions those machines and equipment which are required for the modernisation of Czechoslovakia's industry and are produced in the USSR. The Soviet Zone of Germany might also be made use of for this purpose.

15. It is not clear whether the credit of 300 million dollars granted by Moscow to Prague as announced in the press will be a commodity credit or a foreign currency credit. If a government were in office in Prague which is agreeable to Moscow, Soviet conditions would probably be more favourable than now. Moscow's proposal made before the invasion in connection with Czechoslovakia's credit request to the USSR, i.e., that it was prepared to replace the grain which had so far been bought from the West by Soviet grain might bring a certain relief to the CSSR. In 1969, at any rate, Soviet

deliveries are to be increased. The USSR is fully able to make these deliveries because of the good harvest in 1968. She could also repay her debts vis-a-vis Czechoslovakia by delivering arms. Several procedures would be possible in this respect, for instance the sale of weapons at high prices so that the bilateral balance of payments would be almost in equilibrium. However, this measure would only be a burden for the CSSR since she would then be compelled to deliver more goods from her own production. But the USSR could also sell weapons at very low prices. However, it appears highly doubtful whether the Soviets at the moment have any interest at all in further arming the politically still unstable CSSR. At a later date, however, these considerations might be of more topical importance.

16. The USSR will try to catch up, at least to a certain extent, with this delay in its overall economic development by using other means which are at the same time to strengthen the Soviet influence on the other Soviet bloc countries. Closer economic co-operation within COMECON will therefore be given special priority. Since the efforts of recent years have shown that this goal cannot be reached without detailed agreements, it is likely that these will be particularly emphasised, especially in the engineering, electrotechnical and electronics sectors.

17. The plan for co-operation in the production of one single product will also be taken up again, as can be seen from a number of COMECON suggestions during the first half-year of 1968. Such intentions require complex and complicated methods of co-operation but also require the observation of the agreements unless the defaulting party wants to put up with extremely high losses. This method of division of labour makes co-operation necessary also at the level of the enterprises or at least at the level of industrial associations. This has the inevitable result that decentralised decisions must be taken which, under the dogmatic aspect of the system, should have been avoided.

18. Moreover, it might become necessary to tackle a problem which has been almost completely suspended up to now: the problem of international manpower equalisation. The situation of the Czechoslovak economy has shown the special importance of this problem. Czechoslovakia has a considerable manpower shortage which has been a decisive factor for her slow economic growth over many years. In the summer of 1968, Yugoslavia offered the Czechoslovak Government the payment of part of her imports from the CSSR by providing manpower; recently even Poland has made similar proposals. This exchange would be profitable both for the countries with a manpower shortage, such as the Soviet Zone of Germany and the CSSR, and for countries like Poland, Rumania and Bulgaria, to a lesser extent and for a short time perhaps also Hungary, where there

is a manpower surplus. Moreover, this might help Yugoslavia to intensify her trade relations with the CSSR and - if this is not rendered impossible for political reasons - also with the Soviet Zone. It is unlikely, however, that the USSR would participate in this exchange. It therefore remains an open question whether she will not try to prevent such manpower exchanges which would have been possible and useful for a long time.

19. Better transport conditions for the development of Soviet trade and, in the long run, also for COMECON trade with the West result from the build-up of the Soviet merchant fleet. In this connection, the Soviet merchant fleet will be able to exercise a considerable integration effect on the Soviet bloc.

#### E. THE FUTURE OF THE ECONOMIC REFORMS

20. The Soviet tendency to prevent economic reforms which aim at a relaxation of the inflexible, centrally controlled economic system have become clearly apparent in recent times. Soviet comments on Ota Sik as the intellectual originator of the reforms in Czechoslovakia are unequivocal. Although his original ideas lost much of their impetus during the experiments of the last two years, they might, in the long run, have been successful to a certain extent, notwithstanding the fact that the year 1968 by no means produced the desired results - and even some which were completely unexpected.

21. Apart from this, political questions were so clearly predominant during the first months of 1968 that many decisions which had been planned in the field of economic reforms were deferred for the time being. However, the theoretical demands of the practical reformers were clearer and more uncompromising during this period. The long struggle for political power in 1968 whose outcome was initially uncertain has not, however, permitted any concrete decisions up to now. The government has always emphasised that it would carry out the planned reforms; theoreticians and practitioners of reform have repeatedly stated in the Czechoslovak press that they maintained the essential ideas of the reform. In spite of certain promises that they did not intend to interfere in the internal affairs of the CSSR, the Soviets will be determined to prevent the following measures:

- granting of greater independence to the enterprises,
- creation of genuine workers' and producers' councils,
- price formation on the basis of supply and demand,
- control of the economy primarily by indirect means, and
- expansion as well as intensification of economic relations with the West at the expense of the share of the Soviet bloc and especially the USSR.

22. It will still be possible to put into practice some other measures of reform, such as the concentration of enterprises in larger units, measures of rationalisation, price reforms within the central price fixing system, organizational changes, improvement of the accounting and planning systems with the aid of modern data handling techniques, expansion of the private sector in the field of the crafts and services.

23. This means that no measures can be expected which might lead to a basic change in the existing rigid system of a centrally planned economy in the sense of decentralisation and the introduction of essential elements of a market economy. Although the CSSR has recently decided on the expansion of private trade, this should be taken to mean anything more than what is at present being done in Poland. Measures of this kind will doubtlessly facilitate the daily supply of the population but contribute very little to a change in the economic system.

24. The Soviet position vis-a-vis all efforts to achieve economic reforms liable to ease the system of central planning becomes clearly apparent both in the cautious measures taken by the Soviets themselves and in the sharp attacks of the Soviet press against the reforms in the CSSR and in Yugoslavia as well as in the Polish and Soviet Zonal criticism which follow the same line. Clear decisions have also been taken with respect to the economic control system in the Soviet Zone; the "economic levers" which were to guarantee indirect control at least up to a certain extent are hardly ever mentioned today and it is only the plan which is mentioned as the almost exclusive instrument. The reform in Hungary which started at the beginning of 1968 is also being pursued with great caution. If Bulgaria and Rumania talk of the economic reforms proceeding normally then this does not mean very much since the measures which have been partly realised and partly planned are neither so comprehensive nor so far-reaching that a basic change could be expected of them.

25. It was the intention of the reformers to apply the internal economic reforms also on co-operation within COMECON. In this case the wishes of the reformers were partly in conformity with those of some countries, especially as far as price formation and greater flexibility in foreign trade were concerned. Many questions in this context have not yet been settled in theory, method and practice. These uncertainties as well as the Soviet opposition to these reforms had the result that the decisive meeting of the COMECON Council was repeatedly postponed. In view of this situation, it even appears doubtful whether decisive results may be expected of a meeting commemorating the 20th anniversary of COMECON in January 1969.

F. THE DEVELOPMENT OF DEFENCE EXPENDITURES

26. As a result of the Soviet invasion of Czechoslovakia, tension between the world powers has increased. The USSR will presumably draw the conclusion from this that her own armaments and those of her reliable allies will have to be improved and increased. This could have the result that the armaments expenditures will grow at a faster rate in 1969 than the Gross National Product. This would lead to a slow-down in the development of other branches of the economy, especially the planned improvement of the service sector. Thus, the adjustment of the economic structure of the industrially developed Soviet bloc countries to the industrially developed Western countries would be delayed even more than had been expected.

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