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FOREIGN TRADE POLICY IN THE INVESTMENT GOODS SECTOR IN THE
SOVIET BLOC AND ECONOMIC DEPENDENCE OF THE COMMUNIST
BALKAN COUNTRIES

Note by the German Delegation

I. Foreign Trade Policy in the Investment Goods Sector in
the Soviet Bloc

In accordance with the objectives of COMECON, the various COMECON countries are pursuing a selective import policy vis-à-vis the West aiming at the gradual replacement of Western investment goods by products of Eastern origin. The resulting competition between Western and Eastern manufacturers shows that, at present, the Western products are still superior to those from the East as regards quality and the relatively short periods of delivery. However, as industrialisation within the Soviet bloc proceeds, Western firms will in the long run have to expect growing difficulties on Eastern markets.

2. It is the long-term aim of the planned COMECON integration process to reduce step by step the dependence on imports of Western investment goods and to replace them by goods of Eastern origin or to make them unnecessary by importing know-how, patents and licences from the West. According to this concept, the COMECON member countries are being told to adopt a selective import policy vis-à-vis the West and - if possible - to achieve a surplus in the exchange of goods with Western industrial countries. In this connection it appears likely that Western credit offers will be of interest to Eastern partners only in those cases where they can be used to accomplish essential objectives of economic development.

3. Under this foreign trade policy, COMECON has agreed in principle that prior to the signing of major commercial transactions with Western industrial countries, especially for the delivery of industrial equipment or technical know-how on a credit basis, it should be examined whether the transaction concerned cannot be carried out within COMECON. Only when this is not possible should the deal be signed with the Western

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partner. In this case, however, the COMECON country concerned is obliged to let the other COMECON countries participate on request in the technical know-how against payment of a low price which was thus obtained.

4. In practice, however, this obligation is rarely made use of, for the following reasons:

- National self-interest plays a rôle which should not be underestimated: priority is given to the development of the domestic industry with the aid of Western credits but without creating new dependences within the East bloc. The lack of a control institution within COMECON greatly facilitates the unco-ordinated action of the COMECON member countries vis-à-vis the West.
- The rigid planning system as well as the largely inferior quality of the products compared with those of the West and the uncertain technical maintenance increase the difficulties for both the suppliers and the purchasers to react quickly to requirements as they arise.

5. These aims are being realised in the various COMECON countries by the following procedure which is being applied, sometimes more liberally, sometimes more rigidly, by the economic administrations.

6. The intended import of Western investment goods, irrespective of the financial implications, is examined in the first place by the bank responsible for the investing firm. Approval depends on whether

- the investment is justified by the Plan,
- as regards quality, price and terms of payment, the Western goods ensure the attainment of a certain efficiency and profitability level (expressed in the calculated "optimum investment variant") and
- the planned import from the West cannot be replaced by a purchase within the COMECON area.

7. If the planned investment is within the priorities established by the Plan, the expected efficiency and the period of delivery are the decisive factors in the comparison between a Western and an Eastern offer while the price and possible amortization payments come second. However, the yardsticks applied to the term "efficiency" differ in the various COMECON countries and can, moreover, change from one year to the next. They are governed by economic policy directives within the framework of the overall concept, such as the promotion of export-orientated industrial branches by increased imports from the West, or a restrictive import policy intended to cover only the requirements of some branches of special importance.

8. As a result of the authorisation procedure mentioned above, Western and Eastern investment goods producers compete with one another on the investment goods markets in the Soviet bloc. However, the following reservations must be made which, in view of the integration and industrialisation process within the COMECON, are however, only valid for the near future.

9. Offers by Eastern competitors are not yet of great weight. If any investment goods are being produced by COMECON countries which - perhaps because of Western know-how or Western licences - are of equal quality but cheaper, they are primarily exported not to other COMECON countries but to the West. Moreover, the competitiveness of Eastern enterprises is generally hampered by fully utilised capacities and the resulting long delivery periods.

10. If the modernisation of the production processes continues, the capacities of the metal-processing industries especially the engineering industry grow and technological gaps are successfully closed, the situation on the investment goods market will greatly change in favour of goods of Eastern origin. It can then be expected with a high degree of probability that Western offers - even those connected with a credit offer - will be difficult to place. Thus, in the CSSR, it is now recommended to the banks that they should suggest the establishment of a consortium of firms before granting an import authorisation for investment goods on a credit basis from the West. It is the purpose of this recommendation to pre-finance investment requirements from domestic investment or foreign currency funds without resorting to a Western credit. It cannot be ruled out that this measure will be imitated by the other COMECON countries.

11. Long-term COMECON planning envisages that the foreign trade policy of member countries should be better co-ordinated and controlled on an institutional basis. This can also be seen from the fact that it is an objective of economic integration to co-ordinate the economic plans and the joint planning of certain industrial growth leaders.

12. Joint COMECON projects as well as those which are in the COMECON interest are already being given priority. For these projects, the deliveries by the various partner countries within the bloc as well as Western countries are meticulously planned. There have been rumours that the COMECON Committee for Planning Co-operation, established in 1971, and the COMECON Commission for Foreign Trade will assume both the control and the co-ordination of the foreign trade policy of the member countries. Both institutions are to be granted authority to give instructions to the COMECON member countries.

II. Economic Dependence of the Communist Balkan Countries

13. Because of their accelerated industrialisation Albania, Yugoslavia, Rumania and Bulgaria depend to a varying degree on imports of raw materials and investment goods and on foreign credits from West and East. For this reason, these countries are able only to a limited extent to base their economic policy on national interests.

14. Albania

The speed of Albania's industrialisation process largely depends on technical and financial aid by Red China. This aid made it possible to establish important industrial projects and key factories. Priority has been given to the improvement of the raw material basis and electrical power production. 35 major projects, prefinanced largely by Peking, which are to increase also the efficiency of the processing industry, are planned for the period from 1971 to 1975. The share of Red China in Albania's foreign trade is 55-60%.

15. Notwithstanding the Albanian-Chinese links, the Government in Tirana emphasises Albania's aspirations to economic independence. However, this aim can only be reached if Albania expands its light industry according to the most modern requirements with further Chinese support and exports the products against payment in foreign currency. The first results have already been noted.

16. Yugoslavia

After her departure from Comintern Yugoslavia became heavily dependent on the West economically. The industrialisation process was accelerated with Western economic aid and credits, and attempts were made later to improve the chronically poor economic situation.

The following figures show the extent of economic dependence:

Indebtedness vis-à-vis the West until 1971 about
US \$2,600 million

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| Western capital participation in Yugoslav enterprises until 1971 | US | \$60 million |
| Foreign currency earnings 1971 | | |
| - Transfers by Yugoslav workers abroad | US | \$500 million |
| - Earnings from tourism | US | \$350 million |
| | US | \$3,610 million |

This amount represents about one third of Yugoslavia's GNP.

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17. The difficult economic problems, such as the increasing illiquidity of the enterprises and banks, accelerated inflation, a high balance of trade deficit, have recently induced the Soviets to intensify their influence on Yugoslavia's economy.

18. Thus, credits have been offered to the Yugoslav Federal Government and the Governments of the individual Republics of the Federation - **without success up to now.** However, a Soviet-Yugoslav banking consortium was set up. In this way, the first Soviet credit amounting to \$130 million was granted to a Yugoslav enterprise without an intergovernmental agreement. The capacity of the shipyards on the Adriatic coast are fully utilised as a result of large Soviet orders. Soviet technicians supervise the production. Due to Soviet advance payments in foreign currency, the shipyards have been able to cover their Western import requirements without difficulty in recent months and to improve their financial situation.

19. As a result of the trade agreements concluded last year for the period 1971-1975 between Yugoslavia and the Soviet bloc countries, it can be expected that Yugoslavia's trade with the COMECON will grow faster than her trade with the West. Although the share of the COMECON countries in Yugoslavia's total foreign trade is only about 28% at present (of which the most important trade partner is the USSR), the Soviet bloc covers 50% of Yugoslavia's import requirements for coal, pig iron, rolled steel and scrap.

20. Rumania

Rumania's economic dependence is an established fact owing to her membership in COMECON and her signature under the COMECON Complex Programme. Nevertheless, Rumania tries to pursue a foreign trade policy which loosens the economic ties with the Soviet bloc and which thus runs counter to the integration process desired by the Soviet Union. Rumania's intra-bloc trade (49%), including trade with the USSR (27%) is inferior to the corresponding figures of the other COMECON countries, while the share of her trade with the Western industrial countries (36%) is higher than that of the other countries. The annually recurring deficits in the balance of trade with the West amount to between Lei 1,100 and 1,500 million. Therefore, and also because of large credits, Rumania is the most indebted COMECON country vis-à-vis the West.

21. The aim of Rumania's Five-Year Plan (1971-1975) is an accelerated intensification of trade with the West, so that the share of the COMECON countries in total foreign trade will decrease to about 43% until the end of 1975. Rumania's Government plans to extend and modernise her processing industry for exports to the West by increasing temporarily its Western indebtedness.

22. The earnings of foreign currency which will thus be obtained will be used in the long run to pursue national economic aims, independent of bloc interests.

23. Whether Rumania will succeed in following these lines also after the present Five-Year Plan has been accomplished appears more than doubtful. It seems that Bucharest's economic leadership overestimates its export chances on world markets and take too little account of the vulnerability of Rumania's metal-processing industry due to its dependence on ore and coke imports from the Soviet Union. Moreover, as an institution under Moscow's aegis, COMECON is developing into a supra-national agency with far-reaching powers. If Rumania wishes to avoid future political conflicts with the USSR, her government will have to accept the aims of COMECON's economic policy.

24. Bulgaria

Bulgaria is considered by the USSR as the most loyal supporter both within COMECON and the Warsaw Pact. Bulgaria's complete economic dependence on COMECON, especially the Soviet Union, alone is enough to guarantee in Moscow's eyes that its interests are safeguarded for a long time.

25. 75% of Bulgaria's total foreign trade is with the COMECON countries (among them 55% with the USSR). In fulfilment of the Complex Programme, this share, which is already the highest in the entire COMECON area, is likely to increase as from 1975 to 85% of which 60-65% will then be with the USSR.

26. Her import requirements are decisive for Bulgaria's foreign trade policy. They are being covered by the Soviet Union as follows:

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| coal | : | 100% |
| petrol | : | 96% |
| iron ore | : | 80% |
| machinery and equipment: | | 55% |

27. The possibilities for exports to the West are limited because of the low level of industrialisation. Therefore, Bulgaria's prospects to increase her imports from the West are strictly limited. Moreover, the discontinuation of deliveries from the COMECON could paralyse the Bulgarian industry almost completely.

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