

CONSEIL DE L'ATLANTIQUE NORD  
NORTH ATLANTIC COUNCIL



EXEMPLAIRE  
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608

ORIGINAL: FRENCH/ENGLISH  
24th April, 1964

NATO SECRET  
DOCUMENT  
C-M(64)36

THE SITUATION IN EASTERN EUROPE AND THE SOVIET-OCCUPIED  
ZONE OF GERMANY

Report by the Expert Working Group(1)

PART I - CONCLUSIONS AND POLICY IMPLICATIONS

A. A Review of the Past Six Months

The diversity previously noted in the attitude of the various countries of Eastern Europe both towards one another and towards Moscow appears to have become more pronounced during the last six months. This trend is also apparent in intellectual circles and in the approach to economic problems. It has also shown itself in the response to the Sino-Soviet dispute. These various reactions, fostered by the weakening of the bloc's internal discipline, are an expression of national reflexes which have long been stifled. The USSR tolerates some of these national manifestations, involving neither serious inconvenience for it nor weakening of solidarity, since they may possibly serve Soviet interests.

2. Hence there have been one or two minor deviations in the field of foreign affairs and a continuing general move towards improved bilateral relations with Western countries. Nevertheless, there has been no significant abandonment of bloc solidarity with Moscow on major East-West issues.

3. Some of the most important developments during the period under review have been in the economic field; there has been a new willingness to experiment with unorthodox, pragmatic solutions to economic problems, designed to improve efficiency, provide more satisfaction to the consumer and encourage the exercise of individual initiative. Faced with difficulties in the multilateral approach, Moscow has been developing bilateral economic co-operation with its East European allies.

(1) The Working Group completed this Report on 16th April, 1964.

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B. Estimate of Future Trends

4. Diversity and flux are expected to continue to characterise the East European scene in the next half year and to grow in proportion to the inability of the various régimes to effect an improvement in the economic situation of the population. In some countries economic stresses have led to the erosion of the authority of the leaders. Some experimentation in management is likely in most countries in any event, but fear of loss of control seems to preclude drastic economic reforms in the near future.

5. The Soviet Union's East European allies will continue their efforts to prevent the kind of break in Sino-Soviet relations that would deprive them of their newly acquired manoeuvrability. A decisive break between the Soviet Union and China might tempt the Russians to seek to reimpose uniformity within the bloc by some such organizational innovation as Khrushchev hinted at in Budapest on 3rd April. But the bloc's reaction to such a move would scarcely be favourable. The tendency towards the bilateral rather than the multilateral approach to bloc problems, particularly in the economic sphere, is likely to prevail in the short term.

C. Implications for Western Policy

6. The growing diversity and fluidity in Eastern Europe offer increased opportunities for the development of the forward policy applied towards the area. (See C-M(62)143 of 28th November, 1962, "Policy Towards East European Satellites" which sets forth the possibilities and limitations in this field(1).)

7. The present policy of constantly increasing exchanges and visits with the individual East European régimes and populations is clearly a most fruitful one. Advantage should be taken, e.g. of the relaxations in the spheres of travel and broadcasting, to intensify individual contacts; and dividends may also be expected from the promotion of cultural exchanges. The desire of the East European countries to increase trade with the West should also continue to receive attention.

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- (1) The Turkish expert drew the attention of the Group to the first sentence of paragraph 15 of this Report, which reads: "Efforts to improve relations with the governments of Eastern Europe should not be at the expense of Western principles or in a manner which would be contrary to the interests of individual members of the Alliance."

PART II - INTERNAL DEVELOPMENTS

(a) Political

8. Except in Czechoslovakia and perhaps Hungary, where the advance continues on a fairly broad front, the liberalising tendencies which grew out of destalinisation have faded. In Poland the leadership, weakened by factionalism, seems to have lost its bearings. The increased interference with individual liberties has provoked a reaction in the intellectual field. In spite of experimentation in the economic sphere, the East German régime showed its determination to maintain its grip by the dismissal of Professor Havemann. The very limited degree of liberalisation in Bulgaria - never applied to the Turkish minority - was noticeably checked in December following the Georgiev trial. In Albania the internal situation appeared well under control. The régime remained repressive, not the least towards the ethnic minorities. Rumania continued its "hard line" internally while striking a nationalistic note vis-à-vis the Soviet Union. In Czechoslovakia, although the Czechoslovak and Slovak Party Plena warned against the dangers of loss of Party control, they agreed to a further rehabilitation of the victims of Stalinism, including Clementis. The continuing replacement of Stalinists by newer elements has left Novotny apparently more isolated than ever. In Hungary the régime has continued to pursue its policy of national reconciliation by both political and economic means and its standing rose accordingly.

(b) Economic

9. The signs of strain which have been apparent for two years in the economy of the People's democracies have been confirmed during the last six months and have helped to aggravate the difficulties which most of the governments of these countries are encountering.

10. The imbalance in these economies is reflected, inter alia, in a lag in the consumer goods industry and in difficulties in the fields of employment and foreign trade. Furthermore, the inability of the USSR to supply grain and the consequent increase in East European imports of grain from the West have forced a diversion of scarce Western currency away from industrial purposes.

11. Increasing attention is being given throughout the area to the difficulties and deficiencies of the planning system and to the use of material incentives and wage differentials. This has been particularly noticeable in Czechoslovakia, where the Government has introduced a series of fairly radical economic measures. Hungary has introduced what amounts to a 5% tax on capital employed in production and the East Germans have announced

their intention of introducing a similar measure as well as other far-reaching reforms. In Poland the conflict over investment policies has not been resolved. Even in less-developed Bulgaria economic difficulties have obliged the Zhivkov leadership to scrap a number of ambitious objectives of the Five-Year Plan (1961-65) and to look toward changes in economic planning and policies. In contrast, Rumania's successful performance bolstered the confidence of the régime in carrying out its dependent economic policy.

12. For all these countries, in the long run the problems of planning on a national (and on a multilateral) scale will hardly be solvable without a rationalisation of the price and cost structure. A beginning seems to have been made in this process and has led to debate among economist and even party leaders involving unorthodox ideas borrowed from free-market economies.

### PART III - DEVELOPMENTS WITHIN THE BLOC

#### (a) The Sino-Soviet Dispute

13. The intensification of this dispute had produced by mid-April reactions from the bloc countries, ranging from prompt and complete support for Moscow by Bulgaria to silence on the part of Rumania. In March there was a remarkable Rumanian initiative when a delegation led by Prime Minister Maurer visited Peking in an attempt to mediate in the dispute, an attempt which seems even yet not completely abandoned. The responses of the other bloc countries seem to have varied, particularly in respect of the idea of a new conference of Communist Parties to deal with the dispute. This clearly reflects their doubt as to the effect on their own position vis-à-vis the Soviet Union if the breach between Moscow and Peking should become complete.

#### (b) The Council of Mutual Economic Assistance (COMECON)

14. The tendency to conclude a series of bilateral agreements between the COMECON countries in instances where opposition, particularly by the Rumanians, prevented general agreement from being achieved, has continued in recent months. The USSR, which hitherto had not set up, jointly with the People's democracies, government economic, scientific and technical commissions similar to those on which the other countries of Eastern Europe were already represented, appears to have decided to follow their example. It has now set up commissions of this kind with Czechoslovakia, Bulgaria and Hungary.

15. Of COMECON projects, the Friendship pipeline has become a reality, though its capacity is limited pending the completion of important portions in the USSR; the COMECON bank has begun operations with very limited resources and functions; the freight car pool has run into difficulties and is now not expected to start till later this year.

(c) Bloc relations with the Soviet Zone

16. Friction has become apparent between the Soviet Zone and the other countries in the area. On 13th February Pankow publicised a sharp and unprecedented attack by Politburo candidate Sindermann upon liberalisation trends in Czechoslovakia. This denounced West German agreements recently concluded "especially with socialist states" (i.e. Poland, Rumania, Hungary, and subsequently also Bulgaria). The attack carried a veiled hint that the USSR was falling down on its job of keeping East European developments under proper supervision.

(d) Yugoslav relations with the bloc

17. There seems now to be a pause in the Soviet-Yugoslav rapprochement observed throughout 1962 and 1963. In the past few months there has been no marked strengthening of the ties between the two countries. Yugoslav spokesmen have continued to maintain that for the present Yugoslavia will not apply for full membership of the C.M.E.A., although her representatives attend the meetings of certain technical commissions. On the other hand, the development of Yugoslav relations with the People's democracies, already started on a broad front, has continued, in particular with Rumania, Czechoslovakia and Hungary. The Yugoslavs' desire to continue to play an important role among uncommitted countries has prompted them to take an active hand in the preparation of a new conference of uncommitted countries. Moscow cannot but welcome Yugoslavia's action in this field. Yugoslavia has endeavoured to maintain good relations with the West, especially in the economic sphere, and the proportion of her trade with the West is steadily increasing.

PART IV - DEVELOPMENTS IN EXTERNAL RELATIONS

(a) Relations with the West

18. The trend towards improved relations with the West, which had previously been noted, has continued. The various official manifestations organized on the occasion of the death of President Kennedy were an illustration of this. The improvement in these relations has also been illustrated by relaxation of foreign travel restrictions, particularly in Hungary and Czechoslovakia. It remains to be seen whether a similar trend will be shown in the forthcoming negotiations between Greece and Bulgaria. There have been fresh moves to reduce the jamming of Western broadcasts by Czechoslovakia, Hungary and even East Germany.

19. Lacking official contacts with the West, the Pankow régime intensified its attempts to enhance its own prestige and to vilify the Federal Republic of Germany in various ways, including attacks in the United Nations through the Soviet bloc.

20. In the economic field, the poor results of the plans and the need for foreign currency have led the East European countries to seek outlets in the West. Thus, most of the agreements concluded in the past six months provide for an increase in trade. Some countries, moreover, have had to buy wheat, in particular from the United States and Canada.

Disarmament

21. The last six months have been marked by fresh moves by the East European countries in connection with regional disarmament. Two developments made an impact: the vote of the Socialist bloc countries in the United Nations on the plan for the denuclearisation of Latin America, and more particularly the new Polish initiative.

22. This latter is, broadly speaking, part of the first stage of the Rapacki plan (i.e. a freeze of nuclear weapons in Central Europe under a form of control). The plan supports the bloc's general objectives of restricting Western nuclear deployments and of consolidating the status quo in Central Europe but is also an effort to enhance Poland's own position. During January and February, Poland tried discreetly to gain support for the Gomulka Plan, presented as an independent initiative, before finally putting forward the proposal in a memorandum to interested governments on 29th February. In view of the curious way in which the Poles presented their plan, it cannot be excluded that they encountered some differences of view among their allies.

(b) Relations with the uncommitted countries

23. Politically, the countries of Eastern Europe have continued to support the militant stand taken by Moscow towards problems concerning the Third World. Events in Black Africa have served as a pretext for a propaganda campaign aimed at increasing the Soviet bloc's influence in this area. Once installed, the pro-Communist régime in Zanzibar was immediately recognised by the People's democracies.

24. Economically, these countries have continued to contribute to economic, scientific and technical assistance programmes. However, the poor quality of certain exports, in particular from Czechoslovakia, and the half-heartedness sometimes shown in fulfilling contracts, have caused a certain amount of dissatisfaction in some of the states receiving this assistance.

25. The problems which can arise for an East European country when the East-West confrontation is complicated by the Sino-Soviet conflict are illustrated in the international commissions in Indo-China where Poland represents the communist side in a way which makes it difficult to determine at times whether it represents anyone but itself. The Poles are now trying at least to limit the damage to their relations with the West while doing what they can to maintain communist interests in the East.

(Signed) W.M. NEWTON  
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