

CONSEIL DE L'ATLANTIQUE NORD  
NORTH ATLANTIC COUNCIL

EXEMPLAIRE  
COPY

N° 363

ORIGINAL: ENGLISH/FRENCH  
11th June, 1969

NATO CONFIDENTIAL  
DOCUMENT  
C-M(69)25

THE COMECON MEETING IN MOSCOW  
23rd-26th April, 1969

Report by the Committee of Economic Advisers

SUMMARY

At its meeting on Wednesday 12th February(1), the Council, taking note of the report by the Chairman of the Committee of Economic Advisers on the COMECON meetings in East Berlin in January 1969 (C-M(69)4), invited the Committee of Economic Advisers to continue to watch developments in COMECON and to report on the expected Summit Meeting. The present paper is an assessment of this meeting, which was held in Moscow (23rd-26th April) to consider a variety of problems viewed differently by the members in accordance with their separate interests and aims.

2. The problems facing these countries include: the degree to which East-West trade, which to some extent is an alternative to intra-COMECON trade, should be encouraged; the difficulties stemming from centralised planning - the arbitrary element in planning and uncertainty in costs, the difficulty of moving from the practice of bilateral settlement to multilateral, the problem of agreeing on what measures of economic reform are appropriate.

3. The main Soviet interest in COMECON is to retain it as an institution which encourages the other East European countries to co-ordinate their production and trade policies in harmony with Soviet principles and objectives. At the moment the USSR is primarily concerned to obtain a demonstration of unity among members towards Communist China and to use COMECON with a view to neutralising the attraction of the Common Market on some European Communist countries. The interests of the other members diverge by reason of their level of economic development, their political aims, and the type of economic reform they intend to pursue. The Poles want more integration, not only by plan co-ordination, but also through

---

(1) C-R(69)6, paragraph 25

NATO CONFIDENTIAL

more advanced commercial methods. The Soviet Zone favours very extensive relations with the USSR but is less keen on close links with her less-developed neighbours. The Bulgarians want higher prices for their products; the Rumanians wish to remain free to determine the pattern of production and trade with all countries. The Hungarians and Czechoslovaks are interested in economic decentralisation and favour co-operation at enterprise level.

4. The communiqué agreed by the conference dealt with economic issues in a rather cautious manner. The traditional policies of centralised planning, industrialisation, specialisation, co-ordination of national plans, and mutual trade were approved, though the existence of new problems and the need for new methods of dealing with them was recognised. Measures specifically announced are concerned largely with improved plan co-ordination not only in production but also in investment, research, development and marketing. This problem of plan co-ordination is of particular importance at the present juncture, since plans for the period 1971-75 are currently being worked out in the various countries. Improvements in the working of the existing COMECON Bank are envisaged, and it is proposed to set up a new Investment Bank to finance COMECON projects. The idea of more trade with non-COMECON countries, Communist or other, was also approved.

5. Reports from East European capitals throw some light on a document consisting of 25 points said to have been signed at the conference. It would appear that decisions in principle were taken affecting not only matters referred to in the communiqué but also a number of other issues. Thus it is reported that a more flexible method of negotiating and conducting intra-COMECON trade will be adopted: an attempt will be made to make COMECON currencies mutually convertible, and clearing balances exceeding a certain limit will be convertible into hard currencies; the COMECON Bank will lend money at realistic, commercial rates of interest.

6. The Poles are reported to have been dissatisfied with the outcome of the meeting, possibly because their proposals as to price reform were not accepted, but most other members are said to be reasonably content or, at any rate, like the Hungarians, relieved. For the Russians the conference, after the events in Czechoslovakia, was of great political importance and the fact that a show of unity was achieved may have been considered by them as a satisfactory result.

x

x            x

THE COMECON MEETING IN MOSCOW

7. Three months after the 22nd Session of the Council for Mutual Economic Aid held in Berlin(1), the 23rd "Extraordinary" Council Session, attended by heads of party and government, was held in Moscow on 23rd-26th April, followed by the 40th Meeting of the Executive Committee. In the past these summit meetings, called infrequently to discuss important issues, have been held outside the COMECON framework. At this April meeting, delegations consisted of party chiefs and government leaders as well as normal officials. Only the eight active members(2) of COMECON attended. Yugoslavia, which holds a special status within COMECON, allowing her participation in selected activities of this organization, was present in East Berlin but did not attend the Moscow meeting.

8. The purpose of this meeting seems to have been to discuss future policy, including means of co-ordinating national plans, the question of economic integration, and currency problems. The decisions taken do not appear to have been very important, but, despite differences of view among members, agreement in principle on a number of other issues appears to have been reached and some sort of timetable agreed.

9. A brief survey of the background of the COMECON meeting (Part I below) may throw light on what is known of its results (Part II).

I. BACKGROUND TO THE COMECON MEETING

10. Although the distinction is to some extent arbitrary, it may be convenient to deal first with the basic problems of COMECON and then to outline what is thought to be the various national attitudes.

(a) Basic Problems of COMECON

11. For the USSR the organization at this stage has greater political than economic significance. Because of the Communist system of national planning, the procedural features of COMECON itself and various political circumstances, the Soviet objective of a specific socialist economic community in Eastern Europe has not been realised. On the other hand, COMECON has been of service to the USSR in ensuring that the bulk of the trade of the East European countries has been carried on with other members of the organization while their

---

(1) C-M(69)4

(2) Bulgaria, Czechoslovakia, Hungary, Mongolia, Poland, Rumania, the Soviet Zone of Germany and the USSR

trade with the rest of the world is kept at a modest level, lower than would be the case if they were completely free to develop their trade in accordance with their own economic interests. In particular, a large share of their total trade is with the USSR itself, which seeks to use these countries as workshops or market gardens. For their part, the East European countries find some trade protection in the COMECON arrangements in so far as they would not be able, in the short-run, to withstand the full force of competition on world markets.

12. However, trade with the West offers an alternative to all European Communist countries, including the Soviet Union. East European countries, while they would probably like to keep some of the present arrangements, are increasingly anxious to obtain the advantages of closer economic relations with the non-Communist industrialised countries (credits, availability of advanced equipment, technical know-how, etc.) and expand their trade with the less developed countries. In so doing they may find means of replacing what they would normally buy in the Soviet Union. They may, on the other hand, in order to pay for their imports from the non-Communist countries, have to sell there certain goods needed by the USSR. Beyond a certain limit there may be some loosening of the economic ties between the latter and the East European countries. The problem of the USSR is to maintain a grip on her COMECON partners without depriving them entirely of economic relations with the outside world. She seems to have resigned herself to a significant switch in Rumania's trade from COMECON countries to the West, but to have frowned at the prospect of similar developments in the case of Czechoslovakia. The Soviet Union, for her part, is also eager to share in the benefits of East-West trade and to find in the West sophisticated equipment, long-term credits, and, if necessary, cereals and consumer goods. There may be cases where she buys in the West some of the goods which the East European countries were expected to supply. She may also have to export to the non-Communist world some goods which would be needed by her COMECON partners. For these reasons, while providing undoubted advantages, East-West trade complicates the working of COMECON.

13. Apart from these difficulties, intra-COMECON trade faces all the problems of economic relations between centrally planned economies. It is generally agreed that autarkic tendencies are favoured by centralised planning. Planners like to have control over sources of capital and materials and outlets for their products. To some extent planned trade meets this problem of the planners, though having to rely on decisions taken by authorities in other countries adds a new dimension to their preoccupations. Over recent years the growth in industrial output in COMECON countries exceeds the growth in their trade; this is one of the reasons why the Soviet Union has been anxious to strengthen the cohesion of COMECON and to seek further expansion of intra-COMECON trade. So far no serious attempt

has been made to work out a common plan, and Khrushchev's scheme in 1962/63 to set up a supranational planning organ within COMECON was frustrated, largely by Rumania. The formula subsequently adopted was bilateral co-ordination of national plans; what multilateral co-ordination exists is of a rudimentary character largely affecting fuel and power. Some recommendations for specialisation of production have been accepted, a number of common services have been set up (oil and gas pipelines, railway wagon pool, electric grid), and there are a few jointly owned enterprises. Trade between each pair of countries is arranged by government officials on a basis of five-year agreements and yearly trade protocols, which are still more detailed. Great stress is laid on the exchange of comparable categories of goods, the price of which is a secondary consideration.

14. In all COMECON countries there is an arbitrary element in internal prices, which are fixed by planners. Generally speaking there is a lack of coherence in the price systems of COMECON countries - except perhaps in the Soviet Zone and Hungary, and the national systems are not comparable. For this reason, COMECON prices - now expressed in "valuta rubles" - are broadly based on prices prevailing on world markets. Prices in principle remain fixed for a term of years, but in practice negotiators can agree to modify them for particular transactions.

15. There is some dissatisfaction with the COMECON price system. Naturally the agreed prices tend to get out of phase with current prices abroad, and one or other of the partners feels at a disadvantage. Some Communist economists have argued that COMECON should adopt a price system distinct from "world" prices and based on average costs in the area, which in practice would mean imposing the Soviet system on all COMECON countries. This solution appeals to the Bulgarians who are particularly dissatisfied with the prices they get for their agricultural produce. Recent Soviet articles indicate that on balance the Russians are probably satisfied with the price system introduced in 1965 though, no doubt to counter complaints from other members, they sometimes point out that they get too little for their valuable raw materials while they have to pay relatively high prices for East European manufactures which are often poor in quality.

16. Officials in these trade negotiations aim primarily at a bilateral balance with each partner, so that in principle the value of trade moving from one country to another should equal that flowing in the other direction. Allowance is made for long-term credits of capital equipment granted by the more developed countries to their less-developed neighbours, though also by Czechoslovakia and the

Soviet Zone to the USSR. Apart from these planned credits, an unplanned imbalance on trade account may arise should one partner fail to deliver its full quota of goods; normally an imbalance of this kind is cleared in the course of the next year either as the result of extra deliveries on the part of the debtor country or by reduced deliveries by the creditor.

17. As theoretically "transferable" rubles can be used to buy goods throughout the area, there should be scope for multilateral transactions even though the bulk of trade is planned bilaterally in the first place. A COMECON Bank was set up in 1964 to promote multilateral trade and grant credits; in fact it has not lived up to expectations and is little more than a trade clearing institution. In practice goods which planners desire tend to be scarce in all the countries, and there is a marked reluctance to sell "hard" goods for rubles accumulating in the clearing accounts. Countries which have accumulated balances of this kind would like to be able to convert them to gold or hard currencies but, understandably, the debtor countries are not willing to accept this solution.

18. The economic reforms which have been so much discussed in Eastern Europe and to some extent implemented have not hitherto had much impact on COMECON practice and organization. Their implications for foreign trade, however, are considerable and were in fact discussed at this meeting. The basic issue is the choice between centralised planning and control and enterprise freedom. If, for instance, the protagonists of centralised control of the economy gained the day in all the countries of Eastern Europe, it would be easier for the Russians to press for far-reaching co-ordination of plans, amounting to the sort of common plan advocated by Khrushchev in 1962, and the adoption of a single price system. This would bring out the distinctive characteristics of COMECON as being not merely an economic community of geographical neighbours but a politically motivated entity, different from the outside world both in its economic organization and in its ideological principles and aims. As the planners presumably would still appreciate the value of economic relations with the outside world, foreign trade would not necessarily be reduced, indeed it might continue to increase, but it would reflect the rigidity of the planning system and be subject to the non-economic criteria of the planners. If, on the other hand, the concept of enterprise freedom and a degree of respect for consumer preference, expressed through the market mechanism, were accepted, as proposed in Czechoslovakia and Hungary, this would imply rather different economic policies at the national level in COMECON; links with the outside world would almost certainly be extended and the influence of world prices on the cost and price structure of COMECON countries strengthened. At the moment the tide appears to be running against the more "liberal" reforms in Eastern Europe. The issue, however, is not yet decided.

(b) National Attitudes to COMECON

19. Not merely is there a basic difference between the interests of the Soviet Union on the one hand and the smaller states on the other, but among the latter there is a wide range of views and aims. In economic terms specialisation has little meaning for the USSR. The Soviet Union has an extremely wide range of material resources, and the aim has always been to build up a balanced economy more or less independent of the outside world. Seeing in COMECON a means of maintaining control over the economic policies of the countries of Eastern Europe, she constantly stresses the ideological justification for the organization, the obligation to maintain socialist forms of economic control and the need for the Party to have the final say in economic matters. The Soviet Union is concerned to limit the effect of Western ideas on economic thinking in Eastern Europe and to neutralise the attraction exerted by the Common Market on some countries in the area. The prospect in the longer term of negotiations between the European Community and COMECON countries has no doubt also prompted the Russians to aim at a united front. Furthermore, at the present moment the Russians are trying to use COMECON not merely to get members to pursue a common policy as regards aid to Vietnam and the developing countries but also to adopt a common political attitude to China. The Soviet Union has never been able, and probably has not expected to be able, to obtain unanimous support for all her policies put forward within COMECON. This does not mean, however, that having on a particular occasion failed to obtain full support for a given policy, she will not at a later date, when circumstances are more propitious, try once again to obtain agreement to this policy.

20. In the recent past Poland has come out most strongly in favour of "integration", and in this respect is often regarded as lining up behind the USSR. In fact the Polish interpretation of integration is somewhat different from the Russian. The Poles have often maintained that the USSR cannot be expected to take much part in specialisation schemes, and they probably do not believe in the ultimate merging of the Soviet and the East European economies. They are strongly in favour of close integration of these latter, however, as they hope to get investment capital from the Soviet Zone and Czechoslovakia and they expect their COMECON neighbours to be reliable buyers of Polish products. They profess to favour efforts to close the gap between the levels of economic development reached in member countries. The Poles complain that the decisions allegedly taken in 1964 to co-ordinate plans multilaterally and to introduce a multilateral system of clearing both failed. They are in favour of long-term agreements as to specialisation and trade but they also stress that a rational price system and proper currency arrangements, including the creation of an international socialist currency, are necessary, in which the USSR has little interest at the moment.

21. The attitude of the Soviet Zone is more cautiously expressed than Poland's. The Zone can normally be relied on to support stoutly Soviet political views, but economic interests are a different matter. The economic leaders are, naturally enough, anxious to maintain as long as possible their industrial superiority over their COMECON neighbours and they are not over-enthusiastic about very close links with less efficient partners. The attitude of the Zonal leaders is ambivalent. On the one hand they boast of very extensive economic relations with the Soviet Union. On the other, no doubt for solid economic reasons, they quietly maintain important trade links with the Federal Republic.

22. The official Bulgarian attitude is generally one of subservience to the Soviet Union though in the past there have been brief moments of defiance. In practice the economy is closely linked to the Soviet Union. Most industrial equipment comes from the USSR, which has granted large credits, but the Bulgarians have also bought relatively large quantities of equipment from the West. Within COMECON the Bulgarians are demanding higher prices for their agricultural produce.

23. The Rumanian attitude to COMECON has been proclaimed fairly clearly. They make the point that the COMECON statute constitutes a new and special approach in international relations. They are all for flexible co-operation but against giving COMECON suprastate attributes, endowing it with supra-national organs or accepting majority decisions in place of unanimous ones. At the moment they show no particular enthusiasm for Polish ideas about an international currency. So long as they are free to determine their own investment, production and trade policy, they are willing to co-operate with COMECON partners but they also maintain that the organization should not aim at becoming exclusive; trade with other socialist countries and with the rest of the world must be accepted.

24. The Hungarians have gradually committed themselves to a rather liberal type of reform and their current ideas on COMECON reflect this. They hold that the economy should be nationally determined and that COMECON members should retain the freedom to decide what kinds of co-operation they should engage in. They insist that this should take into account the level of development achieved by the country and the degree of emancipation from administrative restraints achieved. They stress the importance of the rôle of the market and of money, which for them is the basis of further advance. They favour co-operation between COMECON members at various levels, national, departmental and enterprise.

25. The position of Czechoslovakia, in theory quite close to that of Hungary, is a little obscure in practice. It is stated that there has been serious discussion about COMECON over the last 18 months but it is doubtful whether the views recently put forward quite coincide with those expressed last spring. It would seem that the Czechoslovaks favour the co-ordination of long-term plans and investment in common but they also support the Poles in their proposals as regards currency and prices. Their basic problem is to have an industrial pattern which will correspond to their needs and potential.

II. THE RESULTS OF THE MOSCOW MEETING

26. If the communiqué is to be regarded as an agreed statement of views, it is unlikely that other documents which may have been signed would differ greatly in spirit from the communiqué though they could, of course, list a number of issues scheduled for later discussion. It is widely reported that a "secret" document consisting of 25 points was signed. Credence is lent to the view that this includes some issues decided in principle but requiring further elaboration by the reference of the Czechoslovak delegate to decisions about which the public will learn in due course. In the remaining paragraphs the contents of the communiqué are examined and further information and comments from various sources are considered.

(a) The Communiqué

27. The communiqué restates the principles and aims of COMECON, and deals with future work. It is pointed out that all members acknowledge the same ideology and have the same class interest. Their co-operation is based on the principles of socialist internationalism, equality of rights, respect for sovereignty and national interest, and the pursuit of mutual advantage. It is claimed that the members have brought about radical changes in their economic and social structure, have achieved sustained economic growth, advanced in science and culture, and raised their living standards; their policy of industrialisation has strengthened each country separately and the socialist community as a whole, and has enhanced the position of socialism in the world. Socialist planning and co-operation has reduced the differences in the levels of economic development among members. Economic co-operation takes the form of co-ordinating national plans, specialisation in production and in scientific and technological research. In foreign trade, members rely on each other for the bulk of their more significant imports and as markets for their products.

DECLASSIFIED/DECLASSIFIEE - PUBLIC DISCLOSED/MISE EN LECTURE PUBLIQUE

28. As regards the future, the communiqué states that COMECON members are seeking better methods of socialist control so as to take advantage of the scientific and technical revolution, and to achieve higher productivity and living standards; they are examining means of improving existing and devising new ways of economic co-operation, so as to reduce the discrepancies in the level of economic development between themselves, to build up a powerful socialist community of free sovereign states and to help socialism prevail against capitalism. The task therefore is to decide on lines of development and work out measures to achieve them.

29. The measures envisaged aim at improving the co-ordination of national plans, in research and development, production, marketing, investment and in the work on forecasting developments in the scientific, technical and economic fields. These measures imply accepting effective and firmly established division of labour and trade, especially in lines of production most decisive for future progress. This programme also includes specialisation among existing scientific and technical institutes and the setting up of international institutes.

30. The meeting gave considerable attention to the problem of trade and to questions of currency and credit. It stressed the need to strengthen the contractual basis of COMECON relations, especially as regards long-term economic links between countries. It was agreed that an Investment Bank should be set up and the activity of the existing COMECON Bank improved. Members were in favour of the expansion of relations between ministries, economic organization trusts and enterprises. It was decided to examine suggestions to improve COMECON organs and enhance their rôle.

31. As a concession, no doubt to those who argued that COMECON should not be a closed community, the conference agreed that trade relations should be fostered with socialist countries outside COMECON and indeed with other countries, irrespective of their social system.

32. In conclusion, the members unanimously agreed that closer economic relations among themselves corresponded to the wishes of the peoples who were building socialism and communism, and that this would be achieved by maintaining the leading rôle of the party, increasing the power of the socialist states, confirming the principle of economic planning, and securing political unity.

(b) Further Information and Comments

33. Comparing the communiqué with the problems of COMECON and the national attitudes to them, it would appear that no major changes were decided and that the organization should carry on much as before. Judging, however, by reports from East European capitals, it would seem that the meeting gave sympathetic hearing to ideas not stressed in the communiqué. These were put forward mainly by the Poles and no doubt generally supported by the Hungarians and the Czechoslovaks.

34. Planning was reaffirmed as the method appropriate for socialist states and, logically enough, this is associated with the other political postulates: the might of the socialist states, their unity, the rôle of the party. "Integration", a word which means different things to different people, was not mentioned in the communiqué, but the need for plan co-ordination including investment, research and development, was heavily stressed. This problem of plan co-ordination is of particular importance at the present juncture, since plans for the period 1971-75 are currently being worked out in the various countries. Considerable attention is likely to have been given to the trade element of national plans. The plans for the 1971-75 period are likely to be more closely co-ordinated than in the previous five-year periods, and fresh decisions affecting specialisation may have been taken. Thus it is reported that Czechoslovakia may specialise more in chemicals and certain aspects of engineering. It is to be noted, however, that Hamouz, the Czechoslovak delegate, stressed the fact that plan co-ordination is purely voluntary. The Hungarians were apparently relieved that their programme for economic reform was not criticised at the meeting, which is evidence of a tolerant attitude and a willingness to consider new methods.

35. The Polish ideas referred to above, cover such issues as greater flexibility in co-operation and trade, more realism and rationality in prices and exchange rates, a specifically commercial approach to questions of interest rates and payment for licences. The Poles are reported to have been somewhat dissatisfied at the outcome of the conference, though it would appear that some of their ideas were accepted in principle.

36. A joint Polish-Czechoslovak-Hungarian proposal for a more flexible method of intra-COMECON trade negotiation was apparently accepted. In place of the existing all-embracing system, goods would be divided into categories and treated differently. The principle of the obligatory delivery of specific quantities would apply only to raw materials; this would be settled by the foreign trade ministries. As regards equipment and semi-manufactured goods, government bodies would fix, by major categories, the amounts to be traded, leaving the trading organizations to arrange the details. There would be still more flexibility as regards consumer goods, for which no definite limit in value or quantity would be fixed.

37. Apart from the brief approval of trade with the outside world the communiqué makes no direct reference to trade relations with the West though it does state that in matters of foreign trade members should rely primarily on one another. There is no evidence of an effort to co-ordinate national attitudes to trade with the West.

38. There appears to be no immediate prospect of tackling the difficult but fundamental question of prices to which the Poles attach so much importance, and the intentions regarding currency are somewhat obscure. It is reported that in principle it has been decided to make COMECON currencies mutually convertible at realistic rates and that clearing balances beyond a certain agreed limit should be convertible to hard currencies. The convertible currency holdings of the existing COMECON Bank would be raised from the present level of \$30 million to \$100-150 million, and short and medium-term commercial credits would be granted at strictly commercial rates - a figure of 6% has been mentioned. In these various ideas COMECON members have the example of the former European Payments Union in mind.

39. Further reports indicate that the funds of the COMECON Investment Bank which is to be set up will contain an element of hard currency, and that its function will be to finance:

- (i) projects in the less developed COMECON countries;
- (ii) projects in two or more COMECON countries;
- (iii) COMECON projects in the less developed countries of the Third World.

The Bank may to some extent help to remedy the problem stressed by the Poles, namely that too little capital has been available for specific specialisation projects. It is reported that Western capital would be welcomed by the new Bank.

40. There appears to have been no discussion of joint economic assistance to Czechoslovakia and the reports that the Russians agreed to grant a hard currency loan worth 500 million rubles have not been confirmed.

41. To sum up, the COMECON Summit, which had been promised for so long, has come and gone without any immediate spectacular results, but not without some promise of interesting developments in the future. Discussion is said to have been genuine and far-reaching. Past policy was approved and plan co-ordination confirmed; some concessions were made to countries which wanted more flexibility and other, more important, ones are to be examined further. That even limited agreements were reached and that members went away fairly satisfied, each for his own reason, represents after the events of Czechoslovakia, a political success for the Russians.

(Signed) A. VINCENT  
Chairman

OTAN/NATO,  
Brussels, 39.