

~~SECRET~~



Nº

78  
50X1

## ECONOMIC INTELLIGENCE REPORT

# SOVIET ECONOMIC POLICY IN EASTERN EUROPE: THE IMPACT OF THE SATELLITE REVOLTS



CIA/RR 140

12 August 1958

CENTRAL INTELLIGENCE AGENCY  
OFFICE OF RESEARCH AND REPORTS

50X1



~~SECRET~~

**W A R N I N G**

This material contains information affecting the National Defense of the United States within the meaning of the espionage laws, Title 18, USC, Secs. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.

S-E-C-R-E-T



50X1

ECONOMIC INTELLIGENCE REPORT

SOVIET ECONOMIC POLICY IN EASTERN EUROPE:  
THE IMPACT OF THE SATELLITE REVOLTS

CIA/RR 140

(ORR Project 42.1948)

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports



50X1

S-E-C-R-E-T

## S-E-C-R-E-T

CONTENTS

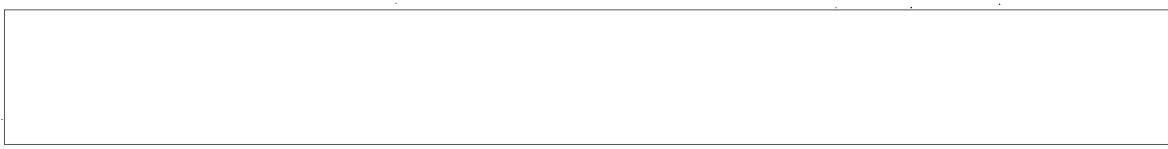
	<u>Page</u>
Summary and Conclusions . . . . .	1
I. Introduction: the Declaration of 30 October 1956 and the New Look in Soviet-Satellite Relations . .	2
II. The Principles of National Sovereignty and Nonin- terference: the Socialist Commonwealth . . . . .	4
A. Satellite Economic Development and the Separate Roads to Socialism . . . . .	5
B. The Satellite Dilemma: Closer Ties with the Free World or Dependence on the USSR . . . . .	9
III. The Principles of Equality of Socialist States and Mutual Gain in Economic Relations . . . . .	15
A. Agreements on Uranium . . . . .	15
B. Other Financial Settlements . . . . .	17
C. Trade Prices . . . . .	20
D. The New Equality: Fact or Fiction? . . . . .	21
IV. The Principles of Cooperation and Mutual Aid . . . . .	22
A. Trade and Aid . . . . .	22
1. Aid . . . . .	22
a. Credits and Loans . . . . .	24
b. Debt Cancellations . . . . .	26
c. Antirecession Measures . . . . .	27
d. Prospects of Continuing Soviet Economic Aid . . . . .	28
2. Trade . . . . .	28
B. Integration . . . . .	32
V. The Fruits of October: New Status of the Satel- lites . . . . .	35

S-E-C-R-E-T

Appendixes

Page

Appendix A. Partial Text of the Soviet Declaration  
of 30 October 1956 on Collaboration Be-  
tween the USSR and the European Satel-  
lites . . . . . 37



50X1

Tables

1. Division of Soviet and European Satellite Trade Be-  
tween the Soviet Bloc and the Free World, by  
Country, 1947-57 . . . . . 10

2. European Satellite Trade with Underdeveloped  
Countries of the Free World as a Proportion of  
Total European Satellite Trade with the Free World,  
1954-56 . . . . . 11

3. New and Old Exchange Rates of Selected Soviet Bloc  
Currencies for Noncommercial Transactions . . . . . 19

4. Credits and Loans Extended by the USSR to the Euro-  
pean Satellites, 1945-55 and 1956-57 . . . . . 23

5. Trade of the European Satellites with the USSR,  
1950 and 1955-57 . . . . . 29

6. Share of the USSR in Trade of the European Satel-  
lites, 1953 and 1955-57 . . . . . 30

7. Share of the European Satellites in Trade of the  
USSR, 1955-57 . . . . . 30

CIA/RR 140  
(ORR Project 42.1948)

S-E-C-R-E-T

SOVIET ECONOMIC POLICY IN EASTERN EUROPE:  
THE IMPACT OF THE SATELLITE REVOLTS\*

Summary and Conclusions

The revolts of some of the European Satellites in 1953 and 1956 signified essentially a reemergence of nationalism in Eastern Europe. Long suppressed under Soviet domination, nationalist pressures quickly emerged during the period of indecision and relaxation of Soviet policy in the months following Stalin's death in 1953. These pressures caused a major retreat from the Stalinist policy of sovietization of Eastern Europe. A new Soviet policy, evolving over the years since Stalin's death, crystallized after the Polish and Hungarian revolts of 1956.

The objectives of the new economic policy are three. First, popular uprisings within the European Satellites are to be prevented by increasing the economic wellbeing of each country. Second, and a corollary of the first, increasing coordination and integration of Soviet Bloc economic activity is being facilitated in order that the Bloc's resources may be used more effectively in the future. Third, although granting the Satellites a larger degree of economic independence, the USSR must maintain its economic leadership of the Bloc.

In contrast to the rigid economic pattern of the Stalinist period, the new policy is, first of all, flexible and diversified. Taking into account the different economic and political circumstances in each Soviet Bloc country, the new attitude acknowledges separate paths of socialist economic development and accepts the principle of voluntary economic co-operation.

So that it will be in the self-interest of the European Satellites to maintain their Soviet Bloc membership, each Satellite has been given a greater economic stake in the Bloc than it had previously. All of the Satellites have obtained important economic concessions from the USSR. The degree of economic independence and material advantage gained, however, varies widely, depending mainly on political and strategic factors but also on the relative economic strength of a given Satellite. Economic as well as other relationships with the USSR in many cases have been defined by law and made public -- a different situation from the secret, extralegal arrangements enforced during the Stalinist era.

\* The estimates and conclusions contained in this report represent the best judgment of ORR as of 15 June 1958.

S-E-C-R-E-T

## S-E-C-R-E-T

The new basis for intra-Soviet Bloc relations which the USSR has been forced to accept is aptly described by Soviet leaders as a socialist commonwealth. It is, however, a commonwealth in which some members are economically stronger and more independent while others remain weak appendages of the strongest state. Furthermore, all members acknowledge the USSR as the political and economic leader of the commonwealth, and all are committed, to a greater or lesser degree, to furthering the economic interests of the Bloc as a whole.

The new Soviet policy has been so loudly proclaimed and so clearly defined that any attempt by the USSR to revert to its previous economic domination and exploitation would undoubtedly meet stiff resistance in the European Satellites. It is unlikely, therefore, that anything less than an actual or anticipated series of Satellite uprisings -- that is, a failure of the new policy -- would bring about a return to Stalinist tactics in the economic sphere. The recent execution of Imre Nagy and the intensified attacks against Yugoslav revisionism by officials in other Bloc countries show clearly that the USSR will tolerate no threat to the political unity of the Bloc, but these events have so far contained no economic implications. The new policy may well lead to more stable intra-Soviet Bloc relationships and to a more rational economic development of the Bloc as a whole. If there are no revolts to disturb the present course of Soviet-Satellite relations, the Satellites are likely to gain increasing control over their own economic destinies within the limits imposed by the national Communist leadership of each.

---

I. Introduction: the Declaration of 30 October 1956 and the New Look in Soviet-Satellite Relations.

A major development affecting the world balance of power following World War II was the creation and development by the USSR of a closed economic area embracing all the member countries of the Sino-Soviet Bloc. A progressive consolidation of the Bloc economic area took place under Soviet direction and according to Soviet blueprints. Facilitated by a network of bilateral trade and clearing agreements, intra-Bloc trade showed a large and rapid increase. The mechanism for a Bloc-wide program of mutual economic aid and coordination of economic activity was established in 1949 when the Council for Mutual Economic Assistance (CEMA)\* was organized.

---

\* The membership of CEMA includes the USSR and the following European Satellites: Albania, Bulgaria, Czechoslovakia, East Germany, Hungary, Poland, and Rumania. The term Satellite as used in this report denotes one of the European Satellites.

## S-E-C-R-E-T

As consolidation progressed, however, signs of increasing disaffection with the new economic structure appeared in the Satellites. The main target of criticism was the USSR and its economic policies toward the Satellites. Resentment was directed specifically against Soviet exploitation of Satellite resources and Soviet interference in Satellite economic affairs. Beginning in 1953, the year of the East German riots and of Stalin's death, the new Soviet leadership was forced to make certain concessions to Satellite economic discontent. By 1954-55 the cruder and more obvious forms of Soviet exploitation and interference had been removed.

In February 1956 the Twentieth Party Congress of the USSR repudiated Stalinism and reaffirmed the equality and independence of all Bloc countries. In the Satellites, these declarations signaled the release of pressures for an end to Soviet domination. To stem the political unrest and growing economic difficulties in Eastern Europe, the USSR in 1956 extended its first major series of loans and credits to the Satellites since 1950, excluding one large credit to East Germany in 1953.

The concessions and assistance granted between 1953 and 1956 failed, however, to quell Satellite unrest, which culminated in the Polish and Hungarian revolts of late 1956. These revolts forced the USSR to make extensive and fundamental changes in its policy toward the Satellites. As a result, Soviet-Satellite relationships had assumed a new and different character by the end of 1956. The new pattern of relationships bears directly on the economic potential of the Soviet Bloc and on the stability of the Bloc economic structure. This report offers an analysis of the major changes in Soviet-Satellite relationships since 1956 and an interpretation of the significance of these changes.

On 30 October 1956, at the height of the Hungarian revolt, the Soviet government issued a "Declaration on the Principles for Developing and Further Strengthening the Friendship and Collaboration Between the USSR and Other Socialist States."\* 1/\*\* In this declaration the Soviet leadership for the first time admitted publicly that it had been guilty of "outright mistakes, including transgressions and mistakes which disparaged the principle of equal rights," in Soviet relations with other Bloc countries. The Soviet government further declared its readiness "to consider, together with other socialist states, measures for further developing and strengthening economic ties among socialist countries, so as to remove such opportunities as may have existed for violating the principles of national sovereignty, mutual gain, and equal rights in economic relations."

\* See Appendix A.

50X1



## S-E-C-R-E-T

The importance of this declaration is threefold. First, the USSR ostensibly renounced its former privileged status in its economic relations with the Satellites. Second, Soviet and other Bloc officials have repeatedly cited the Declaration of 30 October as the new set of principles under which intra-Bloc economic relations have since been conducted. Third, the implementation of the principles of 30 October began almost immediately with bilateral negotiations between the USSR and each Satellite. These negotiations were extraordinary both in the variety of matters discussed and in the scope of concessions made to Satellite demands. The economic and other agreements resulting from these discussions go far toward formally establishing a new basis for Soviet relations with Eastern Europe. A wide range of economic agreements discloses the unequal and exploitative aspects of past Soviet-Satellite relationships and provides mechanisms for eliminating these inequities in the future.

In order to determine the extent to which Soviet economic policy toward the Satellites has actually changed, the measures taken to carry out each of the principles of 30 October will be discussed separately, and comparisons will be made between the current and the past status of Soviet-Satellite economic relations.

II. The Principles of National Sovereignty and Noninterference: the Socialist Commonwealth.

The term commonwealth has been adopted recently by Soviet spokesmen to describe the changed basis of intra-Bloc relationships since 1956. To avoid missing the implications of freedom and independence suggested by this concept, the socialist commonwealth is defined as a group of independent, self-reliant sovereign states with equal rights. 2/ It is further explained that the interests of developing Bloc economic forces will be served "for a long time" through the framework of national socialist states rather than through a common socialist world economic system. 3/ While thus reassuring the Satellite peoples of their right to a free and sovereign national economy, Soviet spokesmen have at the same time acknowledged mistakes and distortions in earlier Soviet policies toward the Soviet Bloc. Khrushchev and other Bloc leaders blame past mistakes on "the period of the cult of personality" -- that is, Stalin. 4/ Accordingly, since the Twentieth Party Congress in 1956 repudiated Stalinism, it follows that intra-Bloc relations have entered into a new era, the era of the socialist commonwealth.

More is required to create a commonwealth, however, than doctrinal assertions by Khrushchev or declarations such as that by the First Secretary of the Polish Communist Party, Gomulka, that "all abnormalities which existed in past Soviet-Polish relations have been liquidated." 5/ The extent to which a country can direct its own internal economic development and conduct its own economic relations with foreign countries is the best test of its economic freedom and sovereignty.

S-E-C-R-E-T

A. Satellite Economic Development and the Separate Roads to Socialism.

Soviet policy objectives in Eastern Europe influenced the course of Satellite economic development as early as 1947-48 in two ways. First, in order to increase the military potential of the Soviet Bloc and to reduce its dependence on Soviet industry, each Satellite was to become economically self-sufficient according to the Soviet definition. Thus each was to develop a heavy industrial base in the shortest possible time, and each was to achieve a balance among the major sectors of its economy similar to that existing in the USSR. Second, the USSR strove to secure the production and flow from the Satellites of those goods needed by the Soviet economy.

In order to achieve the first Soviet objective of economic self-sufficiency, all the Satellites launched ambitious programs of industrial investment during 1949-51. The planned share of investment in national income ranged from 20 to 27 percent in all the Satellites. Of total investments, 40 to 50 percent in each country went to industry (mining, manufacturing, and construction). The share of agriculture, by comparison, was 8 to 12 percent of the total. Of the total allocation to industry, 80 to 90 percent was marked for heavy industry. 6/ As summarized by a Soviet source, in accordance with the socialist concept of industrialization, heavy industry (the foundation for the growth of the entire economy) was to be developed at the most rapid rate. The economies of all the Satellites were to be stamped from the same mold, even to the extent of transplanting identical economic institutions of the Soviet type in each country. 7/

Although plans for expanding heavy industry were largely successful, the forced industrialization of the Satellites along Soviet lines had generally disastrous results. As heavy industry was expanded faster than its slim raw materials base, the Satellites became increasingly dependent on imports of raw materials. Moreover, heavy investment in industry at the expense of agriculture reduced or eliminated the traditional Eastern European agricultural surpluses for export. Each country attempted to build up all types of heavy industrial production regardless of whether it had sufficient raw materials, personnel, production experience, and other economic prerequisites. The results were a parallel rather than complementary economic development among the Satellites, a lack of coordination in planning, difficulties in the organization of mass production and in the sale of manufactured goods, and excessively high rates of capital investment. 8/

Beginning in 1953, the severe economic dislocations in Eastern Europe brought sharp criticism of past policies and a demand for more rational programs of economic development. "Schematism," or slavish imitation of the USSR, became a term of great opprobrium. A former

- 5 -

S-E-C-R-E-T

## S-E-C-R-E-T

Hungarian cabinet member, declaring that Hungary's Five Year Plan lacked a realistic basis, said, "We built large blast furnaces, one after another, whereas we had neither enough domestic iron ore nor enough coking coal for the scheduled production." 9/ Referring to the earlier policies of Communist leaders, another Satellite official stated in 1956 that it was erroneous "to regard the percentage share of engineering in total production as a measure of a country's economic self-sufficiency." 10/ Soviet spokesmen joined in criticizing the exaggerated rates of industrialization which, though proper for the USSR, had been imposed on the Satellites by stereotype without the necessary economic foundations. 11/

The degree of Soviet responsibility for the early course of Satellite economic development is difficult to determine. There is abundant evidence that the USSR before 1953 deliberately encouraged the industrialization of Eastern Europe along Soviet lines. Gomulka, speaking to a meeting of his Party Central Committee in May 1957, said that the imitation of the Soviet road to socialism had been encouraged by the unequal relations with the USSR during the Stalinist period -- that is, before 1953. 12/ In 1950 a former Polish premier praised the broad influence of Soviet advisers in drawing up Poland's long-term plans and in increasing the rates of industrial development. 13/ In 1953 a top Yugoslav leader accused Soviet advisers of wanting "to transplant everything just as it was in the USSR," making no allowance for conditions in Yugoslavia. 14/ A Soviet economist implied that this was a Soviet policy when he summed up a discussion of "successful" Satellite industrialization by saying that "in its content and direction, it is identical with that in the USSR." 15/

The USSR also exerted its influence to achieve its second policy objective in Eastern Europe of securing a flow of needed supplies from the Satellites. At first this objective was accomplished through the Soviet-Satellite joint companies and other Soviet-controlled enterprises in the Satellites. Control over these enterprises provided the USSR with a tool for directly influencing development in mining, metallurgy, and transportation in East Germany, Hungary, Rumania, and Bulgaria. 16/ Later the long-term Soviet orders for Satellite machinery and equipment and the Soviet influence in CEMA served the same purpose. In a Soviet book on the Hungarian economy, for example, it was pointed out that the economic development of the country was determined to a significant degree by the fulfillment of long-term Soviet orders. 17/

Probably a somewhat lesser influence on Satellite development was exerted by the types of economic aid which the USSR agreed to extend. According to both Soviet and Satellite sources, Soviet assistance was directed almost exclusively into heavy industry. 18/ Available information on Soviet economic aid\* supports these assertions.

\* See IV, A, 1, p. 22, below.

## S-E-C-R-E-T

There is, on the other hand, evidence that Satellite leaders themselves were largely responsible for the over sovietization of their economies, particularly after 1953. Khrushchev has denied that Soviet advice was responsible for the misguided Satellite attempts to gain economic self-sufficiency. 19/ Imre Nagy, at one time Premier of Communist Hungary, went even further in absolving the USSR. In a secret report to his Party Central Committee, Nagy quoted Mikoyan and Kaganovich as censuring the Hungarian leaders in 1953 and 1954 for excesses in industrialization and as advising readjustments in favor of light industry. 20/

It appears that before 1953 the USSR encouraged the Satellites to adopt the Soviet model of economic development. These pressures were exerted at every level of Soviet-Satellite relations, from the highest inter-Party contacts to relations between Soviet and Satellite industrial technicians, and through every means available -- CEMA conferences, joint Soviet-Satellite enterprises, economic assistance, long-term Soviet orders for machinery, and the like. It appears also that the Soviet leadership realized, earlier than its Satellite counterparts, the need for a reappraisal of Soviet Bloc economic problems. As early as 1952, Soviet officials were calling for increased intra-Bloc specialization of production. 21/ This idea, which had clear implications for separate paths of Satellite economic development, became a full-blown Soviet policy at the Twentieth Party Congress of the USSR in February 1956. At this time, Soviet leaders also recalled Lenin's statements that the road to socialism would assume different forms and tempos in various countries. Since the Satellite revolts this concept of separate roads to socialism has been progressively modified and made somewhat more explicit. In November 1956, Khrushchev denied any desire to impose Soviet experience and methods on other Soviet Bloc countries and acknowledged that each country must take account of its own "national and social characteristics" while building a new society. 22/ In July 1957 a Pravda editorial stated that Marxism provides only general guiding principles, which must be applied differently under the conditions existing in each country. 23/

Although events in the Satellites forced the Soviet leadership to adopt a new concept of intra-Soviet Bloc relationships, the implementation of the "separate roads" concept is certainly too recent to be fully evaluated. There is little doubt that the area within which the Satellites can exercise economic independence is a restricted one. Economic activity must be directed by the Party. Bloc economies must not become overly dependent on the Free World but must remain Bloc-oriented. The economic unity of the Bloc must be maintained. Even the most independent of Satellite leaders has to recognize that any serious transgression of these general rules would bring a heavy-handed Soviet intervention. Within these implicit bounds the Satellites have already shown evidence of independent policies.

## S-E-C-R-E-T

First, the European Satellites appear to be following a more independent course in CEMA deliberations. Whereas formerly Soviet suggestions in CEMA meetings were in fact Soviet directives, since 1956 the Soviet attitude reportedly has been understanding and conciliatory. 24/ Thus Poland, in a CEMA conference in June 1957, was able to refuse to agree to Soviet Bloc-wide allocations of Polish coal but rather insisted on its right to determine its coal exports through bilateral negotiation. Poland, moreover, reduced its coal exports to Bloc countries in 1957, against CEMA wishes. 25/ Hungary has failed to carry out CEMA assignments. 26/ It has also been reported 27/ that Czechoslovakia balked at certain CEMA suggestions for specialization of industrial production and demanded the right to produce what it wished. Market rivalry among the Satellites has been reported to be still widespread.

Second, it appears that the composition and terms of Soviet economic aid are no longer a simple matter of take-it-or-leave-it for the Satellites. The confidential report of a Rumanian official that as of December 1956 Rumania had a greater influence than formerly over the nature of Soviet assistance 28/ seems to be borne out by the aid recently extended. For example, Rumania in December 1956 obtained Soviet industrial development and commodity credits on more favorable terms than in the past.\* Poland, too, won from the USSR more advantageous terms of credit than in earlier agreements of a similar type. Even more indicative of a "softer" Soviet attitude is the amount of Soviet aid which the Satellites were able to obtain in the form of gold and convertible currencies to be used for purchases in the Free World. Although in the 10 years preceding 1956 the USSR made available only US \$100 million\*\* in this form, more than \$250 million were extended in the 2-year period 1956-57.

Third, in several of the Satellites, new economic institutions, radically different from Soviet forms, have appeared since 1956. In Poland, workers' councils in industrial plants transferred to the workers some of the managerial power previously held by the plant directors. Somewhat emasculated versions of the same institution were organized in Hungary and East Germany. 29/ In Poland and Hungary, private farming has been encouraged, and the small proportion of farmland still collectivized is subject to only nominal government control. 30/

\* See IV, A, 1, p. 22, below.

\*\* Dollar values are given in terms of current US dollars throughout this report.

S-E-C-R-E-T

B. The Satellite Dilemma: Closer Ties with the Free World or Dependence on the USSR.

An important manifestation of the new independence of the European Satellites is the increased trade and credit relations of these countries with the industrial Free World. In contrast to Stalin's assertion in 1952 that East-West trade was no longer an essential requirement for socialist countries, 31/ both Soviet and Satellite leaders in recent years have directed ever larger portions of their trade to the Free World, as shown in Table 1.\* Although part of this increase is accounted for by the underdeveloped countries of the Free World, by far the larger part reflects increased trade between the Satellites and the industrial nations of the Free World, as indicated in Table 2.\*\* For the Satellite area as a whole, trade with the underdeveloped countries increased in importance in 1955 and then declined in 1956, when it took up little more than 26 percent of total Satellite - Free World trade. Except for Czechoslovakia, none of the Satellites conducted as much as one-third of its Free World trade with the underdeveloped countries in any one of the 3 years. In 1956, four of the Satellites showed a definite drop in the share of their trade conducted with these countries.

A growing effort to increase trade with the capitalist world has been shown by individual Satellites. In 1956, Poland, for example, reduced its coke exports to other Satellites while increasing those to the Free World to four times the level of 1955. 32/ Its commodity trade with the Free World continued to rise in 1956, both relatively and absolutely. Hungary has attempted by various means to overcome the foreign exchange shortage which is preventing a more rapid rise in its trade with capitalist countries. It has negotiated for the foreign construction of an automobile assembly plant in Hungary, with payment for imported parts to be made through the export of assembled autos. 33/ In 1957, Hungary offered to reexport UK goods to Egypt, a market closed to direct UK exports. 34/ Rumania and Bulgaria are endeavoring to increase the salability of their products on the capitalist market.

In credit relations, too, there has been an increasing inclination on the part of the Satellites to approach the Free World. In mid-1956 the Czechoslovak Chamber of Commerce advocated seeking technical assistance from Free World industrial countries. 35/ Between 1955 and early 1958, Poland negotiated long-term credits totaling almost \$300 million with West Germany, Canada, France, and the US. 36/ These are the first long-term credits Poland has obtained in the Free World since 1947. Hungary continued its efforts to obtain Free World goods on

\* Table 1 follows on p. 10.

\*\* Table 2 follows on p. 11.

S-E-C-R-E-T

S-E-C-R-E-T

Table 1

Division of Soviet and European Satellite Trade  
Between the Soviet Bloc and the Free World, by Country  
1947-57

Year	Albania <sup>a/</sup>		Bulgaria <sup>b/</sup>		Czechoslovakia <sup>c/</sup>		East Germany <sup>d/</sup>		Hungary <sup>e/</sup>		Poland <sup>f/</sup>		Rumania <sup>g/</sup>		USSR <sup>h/</sup>		Percent	
	Bloc	Free World	Bloc	Free World	Bloc	Free World	Bloc	Free World	Bloc	Free World	Bloc	Free World	Bloc	Free World	Bloc	Free World	Bloc	Free World
1947	N.A.	N.A.	86	14	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	37	63	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
1948	38	62	79	21	32	68	N.A.	N.A.	35	65	41	59	73	27	51	49		
1949	100	0	N.A.	N.A.	46	54	N.A.	N.A.	49	51	43	57	83	17	N.A.	N.A.		
1950	100	0	N.A.	N.A.	55	45	72	28	61	39	59	41	83	17	83	17		
1951	100	0	N.A.	N.A.	61	39	76	24	67	33	58	42	80	20	76	24		
1952	100	0	90	10	71	29	75	25	71	29	66	34	84	16	80	20		
1953	100	0	87	13	78	22	78	22	76	24	70	30	84	16	83	17		
1954	98	2	90	10	75	25	76	24	71	29	70	30	81	19	78	22		
1955	96	4	87	13	70	30	72	28	61	39	63	37	80	20	77	23		
1956	96	4	85	15	67	33	73	27	63	37	60	40	78	22	76	24		
1957 (Plan)	N.A.	N.A.	83	17	N.A.	N.A.	73	27	N.A.	N.A.	54	46	76	24	74	26		

a. 37  
b. 38  
c. 39  
d. 40  
e. 41  
f. 42  
g. 43  
h. 44

S-E-C-R-E-T

S-E-C-R-E-T

Table 2

European Satellite Trade  
with Underdeveloped Countries of the Free World a/  
as a Proportion of Total European Satellite Trade  
with the Free World b/  
1954-56

Country	Percent		
	<u>1954</u>	<u>1955</u>	<u>1956</u>
Albania	18.4	21.0	13.2
Bulgaria	21.9	27.0	27.7
Czechoslovakia	40.9	46.6	43.9
East Germany	6.0	9.7	12.6
Hungary	27.6	28.4	29.7
Poland	23.7	28.3	19.3
Rumania	29.4	30.9	30.3
Total Satellites	23.8	28.7	26.4

a. Including Yugoslavia.

50X1

short-term credit, and Hungarian officials have advocated seeking long-term currency and commodity credits in capitalist countries. There is evidence that Rumania, too, wishes to conclude special triangular trade and other business deals with capitalist countries in order to prevent its being completely tied to the Soviet economy. 45/

This recent trend of the Satellites toward solving economic problems at least partly through a modest reorientation of their trade away from the Soviet Bloc has apparently met with no serious Soviet opposition. The USSR has even tried to facilitate the widening of Satellite trade channels with the Free World. In 1956-57, East Germany, Hungary, and Poland were extended Soviet loans of gold or foreign exchange to pay for purchases in the Free World. In January 1958 the USSR was reported to be planning the establishment of a trade bank in Vienna to extend commercial credit and otherwise to facilitate expanded trade between the Bloc and the Free World. 46/

The present attitude of the USSR toward Satellite economic relations with the capitalist world is a departure from Soviet policy during the cold war years, 1947-52. In July 1947, Czechoslovakia suddenly reversed a previous decision to attend the Marshall Plan conference in Paris, declaring officially that its participation "could be

- 11 -

S-E-C-R-E-T



S-E-C-R-E-T

interpreted as an act directed against its friendship with the USSR." 47/ Czechoslovak officials indicated, both privately and publicly, that direct pressure had been applied by Stalin. Two days later, as if to emphasize the new eastward orientation of Czechoslovakia, the first long-term Soviet-Czechoslovak trade agreement was signed. 48/ One of the chief Cominform charges against Yugoslavia during the bitter intra-Bloc struggle in 1948-49 was the complaint that Tito had made economic concessions to imperialist states, threatening the economic independence of Yugoslavia. 49/ Yugoslavia was charged, falsely, with planning to participate in the Marshall Plan. Yugoslav negotiations for loans from the Export-Import Bank and the International Bank for Reconstruction and Development were cited by Polish and Soviet officials as further evidence of its bowing to imperialism. 50/

The reasons for the new Soviet attitude toward an expansion of Satellite economic relations with the capitalist world follow. First, because the Soviet leadership has agreed to allow the Satellites a larger degree of autonomy in charting their own courses of development, any Soviet attempts to thwart Satellite overtures to the Free World would be correctly interpreted as a return to Stalinist tactics. Second, the current Soviet theme of competitive coexistence includes East-West trade as an important element. Soviet leaders assert that the expansion of trade between the socialist and capitalist worlds will reduce international tensions. Third, it is apparently recognized by Soviet planners that Free World trade and credits could help alleviate the Satellite economic difficulties. To the extent that dealings with the industrial Free World provide economic stability to the Satellites, the USSR will be relieved of additional obligations to extend them assistance. Recent Soviet aid commitments to the Satellites are not of sufficient size to cause any serious problems to Soviet domestic plans. There have been indications, however, that Soviet leaders are concerned over the possible need to continue for some time a sizable program of economic aid to the Satellites. [REDACTED]

[REDACTED] the USSR approved stronger Satellite economic ties with the Free World so that Eastern Europe would be "less of a burden" to the USSR. 51/

The clearest statement of the new Soviet attitude appeared in a Soviet political journal in 1957. 52/ It was pointed out that the friendly socialist world market can now supply the "basic material requirements" of all Soviet Bloc countries. Therefore, according to Soviet spokesmen, it is now advantageous for the Bloc to conduct trade with the capitalist world because capitalist countries can no longer dictate one-sided conditions to the members of the now powerful socialist camp.

- 12 -

S-E-C-R-E-T

50X1  
50X1  
50X1

## S-E-C-R-E-T

It appears likely that Soviet leaders still harbor misgivings about the expansion of Satellite economic ties with the industrial Free World. Their fears seem groundless, however, as the chance of a major reorientation of Satellite trade away from the Soviet Bloc appears remote. Even without strong strategic and political pressures on the Satellites to remain oriented toward Moscow in their economic activity, the economic dependence of Eastern Europe on the USSR is, in itself, sufficient reason for doing so. Although recognizing that a considerable reorientation of trade toward the industrial Free World might be desirable as a long-run solution to their economic problems, Satellite leaders must also face the fact that their economies are now geared closely to that of the USSR (see Table 6\*).

An increasing cycle of Satellite dependence on the USSR has been developing since 1945. Having built up industry based largely on Soviet requirements, the Satellites now have considerable industrial capacity which finds its chief market in the USSR. Soviet Bloc spokesmen have pointed to the economic stability afforded by long-term Soviet orders as opposed to the uncertainty of Free World markets -- undoubtedly an important consideration in the planned economies of Eastern Europe. Moreover, the new industries created in the Satellites are generally not competitive, in terms of price or quality, with those of Free World industry. Thus a Bulgarian leader said that imports from the USSR in 1957 would be paid for chiefly (65 percent) with manufactures, but, were Bulgaria to make its purchases on the Free World market, it would have to export "wheat, oilseeds, meat, and other things that we need at home." 53/ Based to an important degree on imported raw materials, the high-cost industry of the Satellites naturally looks to its best export market, the USSR. In 1956, for example, the USSR absorbed 20 percent of the entire machinery output of Hungary, which made up 60 percent of the total exports of Hungary to the USSR. 54/ Hungarian officials acknowledge that Hungary could not exchange its machinery products for needed raw materials on other markets.

The extent of Satellite dependence on the USSR for deliveries of industrial raw materials is indicated by the data below, all of which are from official Satellite sources. In 1955, Hungary received the following materials from the USSR (expressed as a percentage of total Hungarian industrial consumption of each commodity) 55/:

\* P. 30, below.

## S-E-C-R-E-T

<u>Commodity</u>	<u>Percent</u>
Asbestos	90
Phosphates	81
Sulfur	81
Pig iron	80*
Caustic soda	77*
Iron ore	71

According to the foreign trade plan of Bulgaria for 1957, it was to receive the following industrial raw materials from the USSR (expressed as a percentage of total Bulgarian imports of each) 56/:

<u>Commodity</u>	<u>Percent</u>
Rubber	83
Cellulose	80
Oil products	72
Ferrous metals	72
Coke	67

In 1956, 80 percent of total imports of industrial raw materials by Czechoslovakia came from the USSR. 57/ In 1954 the following materials were imported from the USSR (expressed as a percentage of total Czechoslovak imports of each) 58/:

<u>Commodity</u>	<u>Percent</u>
Aluminum	94
Cotton	80
Iron ore	74
Copper	72
Crude oil	60

A rising schedule of Soviet deliveries of essential raw materials to the Satellites during 1957-60 is revealed in a recent CEMA document. 59/ This document, in which proposed shipments of major commodities from the USSR to Bulgaria, Hungary, and Czechoslovakia are set forth, shows that significant increases are planned in the volume of Soviet exports of iron ore, petroleum products, apatite, fertilizers, cotton, and chemicals.

\* These estimates are considerably higher than those currently carried in CIA.

## S-E-C-R-E-T

There are, moreover, certain self-perpetuating aspects of this dependence on commodities. In some cases, large investments were made to modify production or transportation facilities so as to accommodate Soviet materials of a particular type or from a particular place. For example, because Soviet iron ores from Krivoy Rog are extremely powdery, Poland has built large sintering units at its blast furnace sites. 60/ A changeover to new sources of supply would be costly in such cases.

This essential dilemma of the Satellites was best expressed by the Polish Party leader, Gomulka, in a speech to a meeting of his Party Central Committee in May 1957. 61/ Pointing out the importance of following a distinctly Polish road to socialism, Gomulka ended by saying that the economic future of Poland is closely tied with that of the USSR and that "whoever thinks in terms of economics cannot underestimate the significance of the economic development of the USSR for the economic development of our country."

### III. The Principles of Equality of Socialist States and Mutual Gain in Economic Relations.

#### A. Agreements on Uranium.

Between October 1956 and March 1957, separate agreements were signed by the USSR with each of the Satellite producers of uranium -- Czechoslovakia, East Germany, Rumania, Bulgaria, and Hungary -- concerning the extraction and sale of uranium ore. The USSR is believed to have been in direct control of the uranium mining enterprises in each of these countries\* before it signed this series of agreements. Satellite uranium deliveries are vital to the Soviet nuclear energy program. The new agreements are therefore significant in showing the extent to which the USSR has been willing, in accord with its Declaration of 30 October,\*\* to make concessions in an area of great strategic importance.

In the Soviet-Bulgarian economic agreement of February 1957 the statement on uranium declared only that "Bulgaria will continue to supply the USSR with uranium ore at just, mutually advantageous prices, permitting the further successful exploitation of this raw material." 62/ No further details of this agreement are available, although it has since been reported that Bulgarian negotiators failed in their efforts to obtain a better price for uranium exports. 63/

\* Excluding Hungary, where uranium mining has only recently been started.

\*\* See Appendix A.

## S-E-C-R-E-T

Rumania regained full ownership of its uranium mining enterprise, Kvartsit, in an agreement signed with the USSR on 22 October 1956. 64/ This enterprise had previously been a so-called "joint" company dominated by the USSR. In December 1956 the Rumanian premier, Stoica, revealed that the Soviet-Rumanian economic agreements signed on 3 December included an accord on uranium. Stoica said the USSR would provide Rumania with metallic uranium obtained from the processing of Rumanian ore. Uranium exports are, he stated, made "within the framework of Soviet-Rumanian trade exchanges" and at prices "more favorable than world market prices." 65/

In an apparent move to retain Soviet control of uranium deposits in Hungary and Czechoslovakia while at the same time maintaining the appearance of "mutual advantage" and "equality" in Soviet-Satellite relations, the USSR made significant concessions in its uranium agreements with these two countries. The agreement with Czechoslovakia of 29 January 1957 provided for continued Czechoslovak shipments of uranium ore to the USSR at fair and mutually advantageous prices. 66/ In return the USSR offered Czechoslovakia long-term, interest-free credits for the development of uranium mining and agreed to cover fully all expenses connected with uranium prospecting in Czechoslovak territory.\* 67/ In addition, the USSR agreed to supply Czechoslovakia with the necessary equipment and technical assistance for constructing a nuclear physics institute, an atomic power station, and factories to produce heavy water and metallic uranium. The President of Czechoslovakia, Zapotocky, described this agreement as "the best example of the new socialist relations existing between Czechoslovakia and the USSR." 68/

In a similar accord with Hungary, on 28 March 1957, the USSR agreed to aid in building and equipping atomic power stations and to continue to render technical assistance for uranium prospecting. It was further agreed that, once uranium mining is established, ore mined in excess of the domestic needs of Hungary will be sold to the USSR at just and mutually advantageous prices. 69/ The Foreign Minister of Hungary, Horvath, revealed some time later that 75 percent of the investments in uranium mining are being furnished by the USSR in the form of an interest-free 10-year credit. 70/

Important concessions were won from the USSR by East Germany, the largest producer of uranium in the Soviet Bloc, in two agreements signed in January and March 1957. In the comprehensive protocol on Soviet - East German economic and political relations signed on

\* The joint Soviet-Czechoslovak declaration mentioned Soviet technical aid in uranium production but did not note the granting of long-term, interest-free credit. These details were revealed later by Czechoslovak leaders.

S-E-C-R-E-T

8 January 1957, Article 4 dealt with uranium. 71/\* It was noted that both parties made suggestions regarding the method of pricing uranium exports for 1957 to the USSR. Delegates of both sides were ordered to solve this and other financial questions which the German negotiators had raised in relation to SAG Wismut (the joint Soviet-German enterprise in charge of uranium mining). A subsequent agreement signed in March 1957 provided that uranium deliveries to the USSR be made at prices covering production costs plus a planned profit and that payment be effected by Soviet commodity shipments to East Germany. 72/ Although the price paid by the USSR appears to be in line with world prices for uranium, recent reports have claimed that the price does not cover the high East German production costs. The agreement further specified that "in all financial and economic activities ... SAG Wismut will conform to the appropriate laws of the German Democratic Republic." It has also been reported that German nationals have replaced Soviet personnel in some of the leading positions in SAG Wismut, although the key post of general manager continues to be filled by a Soviet citizen. 73/ These agreements indicate that the administration, mining, and export of uranium have been placed on a formal legal basis. The East German leaders have thus been successful in limiting the range of activities which can be directed by unilateral Soviet decisions. Although the USSR has granted significant concessions, it has retained its half ownership and probably the major share of control in the mining of East German uranium.

From the agreements concluded in 1956-57, it appears that the USSR continues to exercise a high degree of control over the uranium deposits of the Satellites. Only in Rumania and, to a lesser extent, in East Germany has the USSR reduced its direction of uranium mining activities. This control has, however, become less direct and more costly to the USSR since the Satellite revolts in 1956.

#### B. Other Financial Settlements.

As a result of the renegotiation in 1956-57 of earlier agreements, several of the Satellites won major concessions from the USSR. In addition, new "noncommercial" exchange rates,\*\* generally less favorable to the USSR, were established with certain Satellite countries.

\* The annex to this document contained the complete text of the Soviet-East German agreements. The official communiqué on these agreements did not mention uranium.

\*\* The noncommercial rate is a rate which is applicable to international payments other than those involving commodity trade and transportation.

S-E-C-R-E-T

## S-E-C-R-E-T

During the Polish-Soviet discussions in November 1956, Poland asked for an ex post facto revision of a 1945 war reparations agreement under which about 60 million tons of Polish coal had by 1953 been delivered to the USSR at a token price of \$1.25 -- later \$2.00 -- per metric ton.\* Had this coal been sold at world market prices, which were \$12 to \$16 per ton during these years, it would have earned for Poland \$550 million in addition. The rationale behind the 1945 agreement is indicative of the one-sided character of Soviet-Satellite relations in the early postwar years. The Silesian coal mines which had belonged to Germany before 1939 were ceded by the USSR to Poland as German war reparations. The USSR, however, claimed some rights in these mines because only a rapid Soviet military offensive had prevented their destruction. A leading Polish Communist official disclosed in 1956 that Stalin, using this argument, had in 1945 proposed the creation of a joint Soviet-Polish company to operate the Lower Silesian mines. Polish rejection led to another Soviet proposal, which Poland was obliged to accept, that a certain part of the coal mined be shipped annually to the USSR at a token price. Poland was to receive in return 15 percent of all war reparations obtained by the USSR from Germany. 74/ Although Poland provided the USSR with coal as stipulated, it received only a fraction of the reparations promised by the USSR. Therefore, in November 1956, Polish negotiators demanded and obtained a revision of the 1945 agreement. Recognizing the Polish claim to compensation of \$550 million for coal delivered, the USSR agreed to write off \$550 million which Poland owed for Soviet credits extended since 1947. 75/ This concession, which met the "chief demand" of the Polish negotiators, 76/ represented to Poland an important break with the previous unequal relations with the USSR. The USSR at the same time acceded to another Polish claim for reimbursement of \$15 million involving the revaluation of communications services which the USSR previously had received. 77/

A retroactive Polish claim regarding transit charges was discussed during the November meetings, although final settlement was delayed almost a year. The claim involved the use of Polish railroads during 1946-54 for which the USSR had paid a special low rate. In June 1957, there were reports that Khrushchev had rejected the Polish demands. 78/ Although negotiations were never officially announced to be completed, it was reliably reported that the USSR finally agreed in September 1957 to reimburse Poland about \$45 million in settlement. 79/ In describing these agreements, the Polish Deputy Minister of Finance stated that "on the highest level, problems were settled rapidly, with great good will and understanding for our demands." 80/

Hungary obtained a similar settlement during the Soviet-Hungarian meetings in March 1957. Through a recalculation of earlier travel and

\* Tonnages are given in metric tons throughout this report.

## S-E-C-R-E-T

transport costs, Hungary was credited with about \$20 million, although this settlement was not mentioned in the official joint communiqué following the March discussions. 81/

Between 1 May 1957 and 1 January 1958, new noncommercial exchange rates were established by the USSR with Poland, Hungary, Rumania, East Germany, Bulgaria, and Czechoslovakia. Except in the case of Poland, the Satellite currencies were appreciated in terms of the ruble, as shown in Table 3.

Table 3

New and Old Exchange Rates of Selected Soviet Bloc Currencies  
for Noncommercial Transactions a/

Units per Current Ruble				
<u>Country</u>	<u>Unit of Currency</u>	<u>New Rate (Per Ruble)</u>	<u>Old Rate (Per Ruble)</u>	<u>Date of Change</u>
Bulgaria	Lev	0.89	1.7	15 July 1957
Czechoslovakia	Crown	1.16	1.79	1 July 1957
East Germany	Mark	0.39	0.55	1 January 1958
Hungary	Forint	1.4	2.96	21 May 1957
Poland	Zloty	1.5	1.0	1 May 1957
Rumania	Leu	0.97	1.5	1 June 1957

a. 82/

Among the candid discussions of past Soviet-Hungarian relations which appeared in the Hungarian press following the 1956 revolt, several articles dealt with the previously existing noncommercial exchange rate. It was stated that this rate undoubtedly was unjust because it overvalued the purchasing power of the ruble in comparison with that of the forint. 83/  this was generally true of pre- 50X1 1956 noncommercial exchange rates between the USSR and other Satellites. 84/

In hailing these new settlements with the USSR, Satellite leaders disclosed the exploitative agreements which had existed previously. The former arrangements regarding Polish coal deliveries, Hungarian and Polish transport services, and noncommercial exchange rates offer documentary proof of economic plundering by the USSR. Conversely, the new settlements which were agreed to suggest that the USSR has been forced to stop bleeding the Satellite economies or at least to give up its most blatant methods of doing so.



## S-E-C-R-E-T

C. Trade Prices.

There is little doubt that the USSR has been in a position to engage in price discrimination against the Satellites. Because the Satellites have become increasingly dependent on the USSR both to absorb their exports and to provide their raw materials imports, the USSR has been in a strong bargaining position. Furthermore, political hegemony over Eastern Europe gave the USSR an even greater weapon for exploiting the Satellite economies. It is therefore not surprising that charges of price discrimination have often been leveled at the USSR in its dealings with the Satellites.

During the 1956 revolts, several instances of past Soviet price exploitation were brought to light. The reparations agreement with Poland and the transit agreements with Hungary and Poland described in the preceding section are the best documented examples thus far available. These agreements all related to nontrade transactions. In regard to trade prices the evidence is inconclusive. For example, it was disclosed that Polish coal exported to the USSR on commercial account between 1953 and 1956 was priced several dollars a ton below world market prices. 85/ According to Polish officials, however, the differential was compensated for by a corresponding price reduction in certain Soviet export items. 86/

The official explanation of the basis for determining intra-Bloc trade prices has appeared, with little variation, in Soviet and Satellite writings over the past several years. According to this information, three general rules govern trade pricing within the Bloc. First, prices are fixed, to the greatest extent possible, on the basis of average annual world market prices. 87/ Second, prices remain fixed for at least a year, often for several years. 88/ Third, generally a single intra-Bloc trade price is established for each commodity, deviations from this price normally reflecting only differences in transportation costs. 89/

There is little information available on the extent to which these rules have been applied. There are indications that a world market price, or something similar,\* is at least a point of reference in trade negotiations.  although Soviet export prices in 1949 were "considerably" above Free World prices, Rumanian negotiators were able in subsequent years to get reductions by documenting their charges of overpricing. 91/ Former Hungarian trade officials have likewise asserted that prices are largely

50X1

\* Czechoslovak officials state the basis of trade prices with the USSR to be the average annual price in the nearest (Free World) producing area, citing Danish butter prices as an example. 90/

S-E-C-R-E-T

a matter of bargaining and that the hardest bargainers are most successful. World market prices are, it is said, used as "a basis for negotiation." 92/ There are, on the other hand, numerous public statements by Satellite officials claiming that trade with the USSR is based on world market prices. 93/ Another indication that this is the case is the absence of any Polish or Hungarian claims against the USSR for past discrimination in trade prices, although many other claims were brought up for renegotiation after the 1956 revolts.

It appears, however, that Soviet exploitation of the Satellites was carried out largely through means other than discrimination in trade pricing. In the earlier postwar years, when Satellite economies were prostrate, the USSR must have appeared as a powerful and menacing trade partner to whom deference must be given. Mikoyan is quoted by a Yugoslav official as telling a Yugoslav trade negotiation team, "Trade is trade; I am not engaged in making gifts, but in carrying on trade." 94/ To whatever extent there was actual trade price discrimination, it probably was brought about, as a Polish official said, by "the rather complicated system of prices and calculations applied in this exchange." 95/ In other words, although the standard trade agreements may have been based on world market prices, there was a great variety of special commodity, transit, and other agreements which incorporated special prices of advantage to the USSR.

Because of the criticism of past Soviet pricing practices, many of the post-1956 Soviet-Satellite agreements have dealt with the problem of prices. In the terms of the Soviet - East German long-term trade agreement for 1958-60, it is specified that trade will be valued at world market prices. 96/ The Polish Minister of Foreign Trade announced that the Polish trade agreement with the USSR in 1957 provided for trade accounts based "on new principles, on the basis of world market prices." 97/ In November 1956 the Premier of Hungary, Kadar, declared that the terms of all future trade agreements with the USSR would be made public. 98/ In regard to special noncommercial agreements, Bulgaria, Czechoslovakia, Hungary, and Rumania signed uranium accords with the USSR, all of which declared that the USSR would pay world market prices or better for deliveries of uranium. Thus, regardless of past pricing practices, the USSR is now formally committed to adhering to world market prices in its dealings with most of the European Satellites.

#### D. The New Equality: Fact or Fiction?

When Gomulka returned to Poland from Moscow in November 1956 with a list of Soviet concessions he told his people, "We talked with our Soviet comrades as equals." 99/ Other East European leaders, particularly in Hungary and East Germany, described their new relations with the USSR in similar vein. It is too soon to judge whether the important concessions gained in 1956-57 and discussed above are of

S-E-C-R-E-T

S-E-C-R-E-T

sufficient depth and permanence to warrant such optimism on the part of Satellite leaders. It is clear that the USSR has found it necessary to repudiate previous one-sided economic arrangements of advantage to itself. This is particularly true, as indicated in the foregoing section, of the Satellites in which armed uprisings had occurred -- Poland, Hungary, and East Germany. These three countries were able to extract from the USSR admissions of previous exploitation in the form of resettlement to their advantage of earlier one-sided agreements. It is also clear that, in order to retain a large measure of its former control over such vital Satellite activities as uranium mining, the new Soviet leadership has been forced to make concessions.

#### IV. The Principles of Cooperation and Mutual Aid.

##### A. Trade and Aid.

##### 1. Aid.\*

Soviet economic aid extended to the Satellites since World War II has been used to help achieve Soviet policy objectives in Eastern Europe. Soviet emergency credits and loans have alleviated economic crises and to some extent have abated popular discontent with Communist regimes. Before 1953, Soviet industrial development credits influenced the patterns of Satellite growth. Soviet aid helped develop heavy industries, making the Satellites less dependent on Soviet manufactured goods. Eastern Europe simultaneously became more dependent on the USSR to supply Satellite industry with spare parts and raw materials.

At the same time, the USSR, beginning in 1945 and possibly as late as 1953, was enjoying the fruits of unilateral transfers from the Satellites. Through war booty and reparations, privileges held by joint-stock and other Soviet-controlled enterprises in Eastern Europe, and special agreements which formalized Soviet economic exploitation, the USSR obtained a vast quantity of unrequited imports. In short, the USSR was receiving greater value than it gave.

Beginning in 1953 and particularly after the 1956 revolts the main Soviet objective in Eastern Europe was to prevent further disaffection. The USSR has sought to achieve this in part by restoring economic stability within the Satellites. In thus underwriting the economic stability of Eastern Europe, the USSR in 1956-57 expanded and modified its aid program in accordance with the principles of close mutual aid and cooperation enunciated in its Declaration of October 1956. Forced to renounce its former privileged status in Eastern Europe and to undertake a much greater program of economic aid to the Satellites, the USSR

50X1

S-E-C-R-E-T

## S-E-C-R-E-T

now appears to be a net exporter of goods and services to the Soviet Bloc.

In 1956-57, Soviet commodity and currency credits extended to the European Satellites amounted to about \$1.2 billion, which almost equaled the amount (\$1.3 billion) extended over the preceding 11 years. The value of Soviet credits extended in 1956-57 compared with those in 1945-55, by country, is shown in Table 4.

Table 4  
Credits and Loans  
Extended by the USSR to the European Satellites a/  
1945-55 and 1956-57

Country	1945-55		1956-57	
	Amount (Million Current US \$)	Percent of Total	Amount (Million Current US \$)	Percent of Total
Albania	105.5	8.3	47.8	4.1
Bulgaria	70.0	5.5	147.5	12.6
Czechoslovakia	48.0	3.8	0	0
East Germany	363.1	28.5	280.0	23.9
Hungary	39.8	3.1	293.8	25.1
Poland	614.0	48.2	300.0	25.6
Rumania	32.5	2.6	102.5	8.7
Total	<u>1,272.9</u>	100.0	<u>1,171.6</u>	100.0

a. 101/

This sharp rise in Soviet credits to the Satellites since 1956 contrasts sharply with the early postwar period. During 1945-49 the Satellites received less than \$800 million in total economic aid. This modest volume of assistance, more than half of which reflected a 1948 credit to Poland, represented the Soviet contribution to the early postwar economic recovery of the Satellites.

In addition to credits and loans, the USSR in 1956-57 granted a great many other types of economic aid, most of which had no counterparts before 1956. This other assistance, which totaled more

## S-E-C-R-E-T

than \$3 billion, consisted of two general categories. First, the USSR wrote off various debts incurred by the Satellites for Soviet credits extended before 1956 and for the repurchase of Soviet shares in the defunct joint Soviet-Satellite companies. Such debt cancellations amounted to about \$1 billion. Second, the USSR agreed to renegotiate, to the advantage of the Satellites, previous agreements concerning prices for commercial and noncommercial services,\* costs of Soviet troop maintenance, and certain transfers of Soviet property. Such concessions together totaled more than \$2 billion. Thus total Soviet economic aid to the Satellites in 1956-57, including credits, debt cancellations, and various concessions, amounted to about \$4.4 billion,\*\* as shown in the following tabulation:

	<u>Billion US \$</u>
Credits and loans	1.17
Debt cancellations	1.00
Other concessions	2.26
Total	<u>4.43</u>

The types and conditions as well as the volume of economic aid extended since 1956 differ from those of earlier Soviet assistance. This change applies equally to the recent credits and loans as well as to the newer additional aid categories -- debt cancellations, supplemental orders, and Soviet hiring of Satellite labor.

a. Credits and Loans.

Although details are lacking on some of the earlier Soviet credits and loans to the European Satellites, information is adequate for making rough comparisons with the recent series. Credits and loans in both the earlier and the later periods were extended generally for one of three purposes: machinery and equipment for economic development, gold and foreign exchange to cover Free World purchases, or emergency commodity credits. A notable feature of the 1956-57 series is the volume of gold and foreign exchange credits (\$253 million), which is more than twice the amount extended before 1956 (\$102 million). This

\* The most important of these concessions are discussed in detail in III, p. 15, above.

\*\* This amount should not be added to total assistance extended in 1946-55 to obtain total Soviet economic assistance during 1946-57, because some of the debts canceled in 1956-57 reflect credits extended during 1946-55.

S-E-C-R-E-T

S-E-C-R-E-T

volume implies not only Soviet acceptance of the increased trade of the Satellites with the industrial Free World but also a Soviet agreement to assist the Satellites in this trade.

Before 1956, Soviet credits for economic development were directed almost entirely to the more highly industrialized Satellites, Poland and East Germany.\* Beginning in 1956, industrial and agricultural development credits were extended exclusively to the less highly developed Satellites -- Albania, Bulgaria, Rumania, and Hungary. Recent credits of this type amounted to roughly \$325 million. Commodity credits, which made up approximately one-fourth the total value of pre-1956 credits, amounted to something over half the value of credits extended since 1956. Of the \$600 million in commodity credits, \$550 million went to Hungary, Poland, and East Germany. It is noteworthy that, after more than 10 years of rapid economic growth in Eastern Europe, 4 of the Satellites (Albania, Bulgaria, Poland, and Rumania) still required emergency grain credits, totaling nearly \$150 million, from the USSR in 1956-57.

The new series of Soviet credits was extended on more favorable terms than those in the period before 1956. An industrial development credit of \$67.5 million received by Rumania in late 1956 for chemical plant construction is of an entirely new type in Soviet-Satellite dealings. Rumania is to repay the credit with future output from the plants over a 10-year period beginning when the plants start producing. 102/ Although it remains to be seen how this arrangement will be implemented, the terms of repayment appear to compare most favorably with those imposed by earlier Soviet credits.\*\* The drawbacks to Soviet credits in the past were summarized by Poland's Party leader, Gomulka, as follows 103/:

We contracted important investment credits for the expansion of industry, and when the time came for the payment of the first installment, we found ourselves in the position of an insolvent bankrupt. We had to ask ... for a moratorium ... A considerable part of these credits in the shape of machines and installations has so far found no application in

\* The exception is Albania, which is estimated to have received \$87 million in the pre-1956 period.

\*\* Comparison is made only in terms of the direct burden which the credit imposed on the recipient country and not in terms of such long-range factors as binding the economy of Rumania more firmly to that of the USSR.

S-E-C-R-E-T

## S-E-C-R-E-T

production and will not find any ...  
for years to come ...

Gomulka's statement is borne out by a review of the terms of the Soviet credits. Almost all of the earlier credits required repayment to begin within 2 years. Of the 1956-57 credits, on the other hand, about half called for repayment to begin from 3 to 5 years after their receipt. Moreover, the new series of credits generally permits payments to be extended over a longer time and at a low standard interest rate. Four of the recent economic development credits provide a 10-year repayment period -- longer than any of the pre-1956 credits, of which all except one\* called for repayment within 4 years. Although most Soviet credits before 1956 carried a 2-percent interest rate, in at least 5 cases the interest rate varied from 3 to 5 percent. After 1956 the USSR applied a uniform interest rate of 2 percent in all credits to the Satellites.

b. Debt Cancellations.

The Soviet government in 1956-57 wrote off debts totaling more than \$1 billion which were owed the USSR by Albania, Hungary, and Rumania. Almost this entire amount concerned the repurchase by Hungary and Rumania of the Soviet shares in the former joint Soviet-Satellite enterprises in those two countries. The USSR in most cases had no legal right to claim part ownership of these so-called "former German" enterprises in the first place: therefore, in one sense, the USSR was giving back something which rightfully belonged to Hungary and Rumania to begin with. Because the USSR did, however, claim part ownership, it agreed to return these enterprises to Hungary and Rumania only against payment. When the fact became evident after 1956 that repayment imposed an intolerable burden on the standard of living of these countries, the USSR wrote off the balance due.\*\* This had been done for East Germany in 1953, when the USSR agreed to cancel \$194 million owed for repurchase of joint Soviet - East German companies.

Cancellation of the Albanian debt covered all the credits previously granted the country by the USSR. As with Hungary and Rumania, it was clear that the Albanian economy could not support the burden of repayment, amounting to \$105 million. In April 1957 the debt was written off by the USSR.

\* The exception is a 1948 credit to Poland which provided for repayment over a period of 9 years.

\*\* Rumania was still obliged to repay the value of Soviet equipment installed in Rumanian enterprises during the period of joint ownership.

## S-E-C-R-E-T

The cancellation of Satellite debts is significant for two reasons. First, it eased the balance of payments burdens of Hungary, Rumania, and Albania, thus helping to stabilize the three economies. Second, to the USSR it meant relinquishing the claim to \$1 billion in Satellite goods.

c. Antirecession Measures.

After 1956 the USSR agreed to help several of the Satellites with new forms of economic aid which were designed to alleviate Satellite unemployment. The chief means of assistance was in the form of supplemental orders placed with Bulgarian and East German industry. The Soviet - East German protocol of 7 January 1957 stipulated that appropriate organs of the USSR and East Germany were to prepare recommendations for "utilizing free capacities in East German machine building for the production of machines and equipment essential to the Soviet economy." 104/ Subsequent agreements assured the long-term sale to the USSR of the products of East German machine tool, transport equipment, shipbuilding, and other industries. The USSR also agreed to provide the additional coke, rolled steel, and other industrial materials needed to raise the East German output of machinery. 105/

In the Bulgarian economic plan for 1957 it was admitted that the economy faced severe unemployment. The USSR answered the Bulgarian appeal for aid by agreeing to supply additional quantities of cotton cloth, rubber, leather, and other materials to be processed in Bulgarian factories for export to the USSR. This arrangement would, it was claimed, return 25,000 workers to their jobs. 106/ A similar long-term agreement for the Bulgarian shipbuilding industry was signed in May 1957.

In 1957, both Rumania and Bulgaria were reportedly 107/ sending unemployed workers for varying terms of "voluntary" employment with mines, construction sites, and state farms in the USSR. The largest number, about 10,000, arrived from Bulgaria, which also sent several thousand of its unemployed to work in other Soviet Bloc countries. Language barriers as well as the fact that all Bloc countries are mainly short of skilled labor probably will keep the Bloc migrant labor program on an insignificant scale, at least in the foreseeable future.

The supplemental order program, on the other hand, is a significant new development. First, it is a "cheap" form of aid for the USSR, in that Soviet outlays in the form of industrial raw materials are soon returned in the form of finished products. The returns are thus more immediate than in the case of credits. Second, as executives in the East German machine building industry quickly recognized, 108/ the USSR will be able to exercise continuous control over an important



## S-E-C-R-E-T

segment of East German and Bulgarian industrial production. Both this and the migrant labor program represent the Soviet response to a recent Satellite phenomenon, large-scale unemployment.

d. Prospects of Continuing Soviet Economic Aid.

Because of continuing economic difficulties in the Satellites, it appears likely that the Soviet commitment to underwrite their economic stability may mean continued Soviet economic aid. There are, however, certain factors which should reduce the burden of Soviet aid in the future. First, the Satellites are now pursuing more rational economic policies, so that their economic life should suffer fewer serious crises than in the past. Second, the large portion of aid in the form of credits will bring a return flow of capital to the USSR as Satellite obligations fall due. Third, the major task of building an industrial base in each Satellite is almost finished, so that no more large-scale crash programs of economic development need be undertaken. Fourth, the rapid industrial expansion of the leading European Satellites should enable them to assume a greater share of the burden of economic aid to less developed Soviet Bloc countries. Fifth, the USSR has successfully devised certain forms of aid which will benefit the Satellites and at the same time cause little or no strain on the Soviet economy. Gold and foreign exchange credits and supplemental orders are the best examples. There are, moreover, reports of Satellite aid requests being rejected by the USSR with the advice to seek aid from East Germany or from the capitalist Free World. 109/

2. Trade.

Trade has been by far the most important form of Soviet cooperation with the Satellites. As shown in Table 5,\* Soviet-Satellite trade in 1957 amounted to nearly \$4 billion -- an increase of more than \$2 billion since 1950. The European Satellites have generally accounted for at least 50 percent of total Soviet trade, and the USSR has been the major trade partner of each Satellite.

Although too short a period has elapsed since the Satellite revolts to assess their long-range effects on trade, several significant developments have occurred. In spite of the revolts, which caused a drop in Soviet trade in 1956 with Hungary, Poland, and Rumania, total trade between the USSR and the Satellites continued to grow in both 1956 and 1957. In 1957, trade increased about 8 percent above the level of 1956, exceeding the level of 1955 except in the case of Poland and possibly Rumania.

\* Table 5 follows on p. 29.

## S-E-C-R-E-T

Table 5

Trade of the European Satellites with the USSR a/  
1950 and 1955-57

Country	Million Current US \$			
	1950	1955	1956	1957 <u>b/</u>
Albania	15.5	20.8	26.3	36.8 <u>c/</u>
Bulgaria	166.8	248.8	253.0	387.0 <u>d/</u>
Czechoslovakia	422.0	742.5	770.3	932.0
East Germany	345.8	985.0	1,197.8	1,525.0
Hungary	210.4	261.8	247.8	343.2
Poland	451.5	718.5	640.5	675.0
Rumania	253.3	477.5	447.3	N.A.
Total	<u>1,865.3</u>	<u>3,454.9</u>	<u>3,583.0</u>	<u>3,899.0 e/</u>

a. Based on sources for Table 1, p. 10, above.

b. Preliminary estimates.

c. The Soviet-Albanian trade turnover in 1957 was planned to be 40 percent above that of 1956.

d. Soviet-Bulgarian trade in 1957 was planned to increase by 53 percent above the level of 1956.

e. Excluding Rumania, for which no Soviet trade data for 1957 are available.

The importance of the USSR in the trade of each Satellite is indicated in Table 6.\* In 1956 and 1957, from one-third to more than one-half of the trade of each Satellite was conducted with the USSR, which remained the primary trade partner of each. Hungary, which had begun to loosen its trade ties with the USSR during the "new course" (1953-55), by 1957 was conducting a greater share of its trade with the USSR than in any previous year. A large part of this increase is accounted for by Soviet deliveries on credit, which brought a planned trade deficit of almost \$160 million in Hungary in 1957. Similarly, the Soviet share of the trade of Bulgaria and East Germany rose considerably in 1957. The Soviet share of the trade of Poland remained the smallest of all the Satellites, however -- less than one-third.

In contrast with the importance to each Satellite of trade with the USSR, Table 7\*\* shows the importance of this trade to the USSR.

\* Table 6 follows on p. 30.

\*\* Table 7 follows on p. 30.

## S-E-C-R-E-T

Table 6

Share of the USSR in Trade of the European Satellites a/  
1953 and 1955-57

Percent of Total Foreign Trade of Each Country				
<u>Country</u>	<u>1953</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>
Albania	57	40	42	N.A.
Bulgaria	56	46	44	55
Czechoslovakia	36	35	32	33
East Germany	N.A.	38	41	45
Hungary	34	22	30	36
Poland	33	32	28	31 b/
Rumania	N.A.	49	48	50 c/

a. Based on sources for Table 1, p. 10, above.

b. Based on the first three quarters of 1957.

c. Planned.

Table 7

Share of the European Satellites in Trade of the USSR a/  
1955-57

Percent of Total Foreign Trade of the USSR			
<u>Country</u>	<u>1955</u>	<u>1956</u>	<u>1957 b/</u>
Albania	0.3	0.4	0.4
Bulgaria	3.8	3.5	4.7
Czechoslovakia	11.4	10.6	11.0
East Germany	15.1	16.4	18.5
Hungary	4.0	3.4	4.1
Poland	11.0	8.8	8.2
Rumania	7.3	6.1	N.A.
Total	<u>52.9</u>	<u>49.2</u>	<u>46.9 c/</u>

a. Based on sources for Table 1, p. 10, above.

b. Preliminary data.

c. Excluding Rumania.

## S-E-C-R-E-T

Although the Satellite area as a whole accounts for about half of total Soviet trade, only East Germany and Czechoslovakia take up significant percentages of this total -- 18.5 percent and 11 percent, respectively, in 1957. East Germany accounted for a somewhat larger share of the total in 1957 than in 1955. Although the share of East Germany rose by about 3 percent compared with 1955, that of Poland declined from 11 percent to about 8 percent over the same period.

Within the general pattern of Soviet-Satellite trade, characterized by continued growth and relatively stable relationships, significant changes have taken place in the structure and composition of trade. In keeping with the principles of the Declaration of 30 October 1956, the USSR appears to have accepted the obligation to provide the Satellites with larger quantities of the industrial raw materials and foodstuffs which are in short supply in Eastern Europe. The importance attached to this obligation is suggested by the terms of several Soviet-Satellite agreements in 1957, in which additional Soviet deliveries are specified as one of the concessions gained from the USSR. For example, in the Soviet-Czechoslovak agreement of 29 January 1957, it was stated that the USSR had agreed, at the request of Czechoslovakia, to make additional deliveries in 1957 of grain, iron ore, ferrochrome, and aluminum. 110/ In the Soviet - East German agreement of 7 January 1957, Article 1 contained the Soviet commitment, made at the request of East Germany to increase by more than 30 percent in 1957 the volume of Soviet deliveries "of goods which are essential to the fulfillment of the 1957 East German economic plan goals." 111/ At least a part of this increased export volume was intended to offset the decline in Polish and Hungarian deliveries in 1957.

In contrast with these post-1956 export commitments, the USSR sometimes in previous years has declined to raise its exports above the level of required Soviet imports from each Satellite. Nagy, the former premier of Communist Hungary, described in his now-famous testament how Hungary had anticipated an increase in Soviet exports in 1955 in exchange for increased deliveries of Hungarian machinery. "However," concluded Nagy, "the USSR was willing to guarantee us only 50 percent of the 1954 import volume and only 36 percent of the items on our want list for 1955." 112/

In 1957 the USSR increased considerably its exports of raw materials to Eastern Europe. Although Soviet-Czechoslovak trade was to increase by 11 percent in 1957, an increase of 70 percent was planned in Soviet deliveries to Czechoslovakia of oil, lead, aluminum, and flax -- the last two to replace supplies formerly obtained from Hungary. 113/ East Germany was to receive from the USSR in 1957 about double the 1954 volume of Soviet coal, grain, iron ore, pig iron, and crude oil. 114/ Bulgaria, Hungary, and Poland were also scheduled to obtain accelerated

## S-E-C-R-E-T

deliveries of Soviet crude oil, ores, and metals in 1957. In order to help Bulgaria carry out its plans for expanding agricultural production, the USSR planned to increase its exports of fertilizers to Bulgaria from 14,000 tons in 1955 to 65,000 tons in 1957. 115/

The structure of Satellite exports to the USSR underwent some shifts in 1957, although data are incomplete. There was, in particular, a significant increase in Soviet imports of finished consumer goods from Bulgaria, Czechoslovakia, and East Germany. A large part of this increase was the result of supplemental Soviet orders designed to alleviate unemployment in Satellite industry.\* East Germany reported that the share of food and consumer goods in its exports to the USSR in 1957 would exceed the level of 1953-56 by 10 to 12 percent. 116/ The export of finished textiles alone was planned to be three times greater than in 1956. 117/ Bulgaria and Czechoslovakia reported large increases in consumer goods exports to the USSR in 1957, although no details were given. Nevertheless, engineering products continued to occupy a major place in the exports of the industrial Satellites. This category made up 50 percent of total Czechoslovak exports to the USSR in 1956. 118/ Czechoslovakia planned to ship \$133 million in machinery to the USSR in 1957, an increase of 16 percent above deliveries in 1956. 119/ Engineering products accounted for more than 70 percent of the planned exports of East Germany and Hungary to the USSR in 1957. 120/ Investment goods were reported to take up about 20 percent, or more than \$100 million, of the exports of Poland to the USSR in 1957. 121/

In 1957, because of the dislocations caused by the Satellite revolts, no long-term Soviet-Satellite trade agreements were concluded. By early 1958, however, economic conditions were sufficiently stable to permit a partial return to long-term planning. Accordingly, the USSR signed 3-year trade agreements with most Satellites covering the period 1958-60. These agreements, coupled with the Satellite obligation to repay in commodities the recent series of Soviet loans and credits, should keep the Satellites closely bound to the Soviet economy, at least over the next several years. In spite of some degree of shift toward the Free World in Satellite trade, there appears to be no sharp reversal of the previous pattern, and the USSR continues to account for the lion's share of Satellite trade.

B. Integration.

The directives of the Twentieth Party Congress of the USSR in February 1956 on the Five Year Plan called for increased Soviet economic collaboration with the Soviet Bloc through a more rational utilization of Bloc economic resources and productive capacities. This

\* See IV, A, 1, p. 22, above.

## S-E-C-R-E-T

collaboration was to be accomplished by the coordination of national economic plans, the specialization and subcontracting of production, and, to a lesser extent, the exchange of industrial and technical experience. 122/ This blueprint for collaboration has not been altered.

Most of the important developments in Soviet Bloc integration since the 1956 revolts are a continuation or a logical outgrowth of earlier trends. There are, however, two specific developments which are to be attributed at least in part to the Satellite revolts. First, there has been a notable softening of the Soviet attitude in intra-Bloc deliberations and a corresponding independence on the part of the Satellites. For example, Polish officials had complained in 1956 that the basic obstacle to Polish trade was the compulsory allocation of Polish coal among Bloc countries, by CEMA orders. 123/ By the spring of 1957, however, Poland was able to reject successfully the principle of Bloc-wide coal allocations and to insist that deliveries be based on bilateral negotiations. 124/ On several occasions in late 1957 and early 1958, various Satellites have been reported to reject CEMA recommendations on specialization of industry. 125/ That this independent attitude has hindered Bloc-wide cooperation is further suggested in the communiqué which followed the May 1958 conference of CEMA members. According to the communiqué, this conference, which was attended by top Party officials of the CEMA countries, "found it necessary to enhance further the role of CEMA in organizing economic cooperation." 126/ Although the communiqué did not indicate how this was to be done, the most effective way would be to make CEMA recommendations more binding on its members.

The second development caused partly by the Polish and Hungarian uprisings was the setback in coordination of all national economic plans within the Soviet Bloc. The Satellites previously had been forced to interrupt long-term planning and to initiate new long-term plans starting in 1956 so as to bring all Soviet Bloc plans into line with that of the USSR, which was to run during 1956-60. This coordination of plans, hailed at the time as a "decisive factor" in the progress of intra-Bloc coordination, 127/ was nullified by the Satellite revolts of late 1956. The inherent dangers of increased intra-Bloc coordination were foreseen by a Czechoslovak economist who warned in 1955 that a failure of one country to meet its delivery quotas or import obligations could have serious repercussions in the others. 128/ This warning was borne out in the aftermath of the 1956 revolts, when stoppages of such exports as Polish coal and Hungarian aluminum were felt throughout the Bloc. Plan coordination received a further setback in 1957 as a result of the Soviet economic reorganization and the unilateral abandonment of the Soviet Sixth Five Year Plan (1956-60) in favor of a Seven Year Plan to run during 1959-65.

## S-E-C-R-E-T

There have been other significant developments in Soviet Bloc integration since the Satellite uprisings. They appear, however, to be direct results of decisions reached at the Twentieth Party Congress of the USSR rather than reactions to the 1956 revolts. First, during the Warsaw meeting of CEMA in June 1957 the member states drew up a multilateral commercial clearing system for intra-Bloc trade. 129/ Although this trade probably will continue for some time to be based on a network of bilateral trade agreements, certain bilateral balances may be transferred periodically to multilateral account for settlement. 130/ In spite of its modest scale, the new system should serve the cause of integration by making intra-Bloc trade more attractive to the European Satellites, inasmuch as a Bloc member is no longer forced to accept in bilateral exchange goods which it considers to be of marginal use.

A second recent step toward integration is the decision of CEMA to work out coordinated economic plans for 1959-65 and "basic directions" of economic development up to 1975. Since this decision (June 1957) the problem of coordinating long-range plans has been taken up by various permanent technical commissions of CEMA in late 1957, early 1958, and May 1958 at the Moscow CEMA conference of Bloc Party leaders. At this conference it was decided that Communist China and the Asian Satellites would take an active part in Bloc cooperation, probably implying Chinese participation in planning the long-run allocation of exports of basic materials among Bloc countries. The current emphasis on the voluntary nature of coordination probably will mean a more gradual and less complete coordination of plans than that originally envisaged by Soviet leaders. All CEMA decisions must be referred to the governments concerned for ratification, and several of the Satellites have recently shown reluctance to undertake firm export commitments very far in advance. As mentioned above, the problem of putting more teeth in CEMA decisions was at least discussed at the Moscow CEMA meeting of May 1958.

Direct economic collaboration within the Soviet Bloc has received added impetus since 1956, chiefly through bilateral negotiations. The bilateral approach to economic cooperation is not a new development but was initiated before the 1956 revolts with the establishment of such joint commissions as the Soviet-Czechoslovak Commission on Economic Cooperation. 131/ During 1957, however, the activities of such organs have expanded considerably. Of particular interest are the growing direct ties between producing enterprises in different Bloc countries since early 1957. In March 1957 a joint Soviet-Rumanian commission approved a plan for direct cooperation between the respective ministries of agriculture in the two countries. 132/ In January 1957 the USSR and Czechoslovakia agreed to broaden cooperation between Czechoslovak and Soviet research institutes, 133/ and by August 1957,

S-E-C-R-E-T

East German and Soviet factories were collaborating directly in the production of cement plant equipment. 134/ The Soviet - East German and Soviet-Czechoslovak trade agreements signed in January 1957 provided explicitly for coordination of their respective machine building industries with that of the USSR. 135/

Specialization of production within the Soviet Bloc to date has not proceeded rapidly or far. In February 1958 this fact was acknowledged by the Deputy Premier of Czechoslovakia, who complained in a Soviet press interview 136/ that CEMA branch commissions have served mainly as forums for passing resolutions and have accomplished little in the way of solving the many complex practical problems with which they are faced. As in the coordination of plans, the delay in achieving specialization appears to be due largely to the reluctance of individual Satellite governments to ratify CEMA proposals which call for their relinquishing the production of certain lines of machinery and other goods. 137/

The Soviet economy is undoubtedly involved in Soviet Bloc integration to a greater degree than it was before the Satellite revolts. The USSR has increasingly participated in joint ventures to help develop Satellite industries and resources. There is still no indication, however, of any significant degree of Soviet dependence on the Satellites, largely because the abundant resources of the USSR historically have been used to develop a complex and diversified economy in the interests of economic self-sufficiency.

In spite of the fact that the Soviet economy is not deeply involved in Bloc integration, an increasing degree of specialization and integration may be expected among the European Satellites. The USSR, particularly since 1956, has encouraged the Satellites to concentrate production in their most efficient industries. According to Soviet leaders, their ultimate goal is "the establishment of a common plan for the economic development of the entire socialist system," based on specialization of production. 138/

#### V. The Fruits of October: New Status of the Satellites.

All of the Satellites benefited from the new Soviet policy which followed the Hungarian and Polish revolts of October 1956. First, because the USSR assumed a greater obligation toward maintaining the economic wellbeing of its Satellites, they have all been able to obtain more material aid than in the past. Moreover, they have had greater success in demanding those types of aid which were most needed and in obtaining Soviet credits on more favorable terms. Second, all the Satellites attained, to a varying degree, a larger measure of control over their internal economic affairs. Internal investments have been allocated according to national interests in contrast to the detrimental

S-E-C-R-E-T



## S-E-C-R-E-T

policy followed earlier, when each Satellite was encouraged to follow the Soviet model. Several of the Satellites have taken advantage of the softer Soviet policy to stand up for national interests against the interests of Bloc-wide specialization and integration. Third, Satellite economic relations with the USSR were generally placed on a formal, legal basis, thus restricting the area in which unilateral Soviet action can prevail. Most economic agreements have been made public as opposed to the many extra-legal arrangements which existed during the Stalinist period.

The present Soviet leadership has so far tolerated a larger degree of deviation in Satellite economic matters than in the sphere of politics. Recent intensification of the Soviet Bloc-wide campaign against Yugoslav revisionism as well as the execution of Nagy in mid-June appears to be in response to political rather than economic considerations. Both these events have been interpreted as a warning to Satellite leaders that the political unity of the Bloc must be maintained.

Although the USSR has adopted a more benevolent attitude toward the economic problems of all its Satellites since 1956, the most successful in asserting their sovereignty and "socialist equality" in the economic realm are Poland and, to a lesser extent, Hungary and East Germany -- the three countries in which armed uprisings occurred. Only in these countries have non-Soviet economic institutions arisen such as industrial workers' councils, and only in these countries has private farming been officially encouraged at the expense of collectivization. Hungary and Poland have gone further than the other Satellites in orienting their trade toward the Free World. As shown in Table 1,\* nearly half of Poland's trade in 1957 was with the Free World as opposed to 30 percent in 1953 and 1954. Hungary has increased its share of trade with the Free World from less than one-fourth in 1953 to more than one-third in 1956. Poland, Hungary, and East Germany were the only Satellites to extract from the USSR admissions of former economic exploitation and to win resettlement of earlier one-sided agreements. For goods and services provided earlier to the USSR, Hungary and Poland obtained readjustments amounting to more than \$600 million in their favor. East Germany, in addition to gaining important concessions which put its uranium mining operations on a more equitable basis, also won a reduction of \$1.4 billion in its share of the cost of maintaining Soviet troops on East German soil. The remaining Satellites (Albania, Bulgaria, Czechoslovakia, and Rumania) received only minor concessions in the interests of "socialist equality." It appears that among Soviet Bloc countries, as among the Communist animals of George Orwell's Animal Farm, all are equal but some are more equal than others.

\* P. 10, above.

S-E-C-R-E-T

## APPENDIX A

PARTIAL TEXT OF THE SOVIET DECLARATION OF 30 OCTOBER 1956  
ON COLLABORATION BETWEEN THE USSR AND THE EUROPEAN SATELLITES\*

"In the process of establishing a new structure and deep revolutionary transformations in [Soviet Bloc] collective relations [after World War II], there were serious difficulties, unresolved problems, and direct mistakes, including transgressions and mistakes which disparaged the principle of equal rights in relations among socialist states.

"The Twentieth Party Congress of the USSR strongly condemned these transgressions and mistakes and pointed out the task for the USSR consistently to put in practice, in its relations with other socialist countries, the Leninist principles of equal rights of nations. It proclaimed the necessity of taking full consideration of the past history and individual peculiarities of each country which has begun to build a new life.

"The Soviet government is consistently carrying out these historic decisions of the Twentieth Congress, which create the conditions for further strengthening the friendship and collaboration among socialist countries on a firm basis of maintaining the full sovereignty of each socialist state.

. . .

"The Soviet government, together with other socialist states, is prepared to consider measures for securing the further development and strengthening of economic ties among socialist countries so as to remove such opportunities as may have existed for violating the principles of national sovereignty, mutual advantage, and equal rights in economic relations.

"These principles must be extended to include advisers. The USSR, at the request of the socialist governments, sent specialists to these

\* "Deklaratsiya pravitel'stva Soyuza SSR ob osnovakh razvitiya i dal'neyshego ukrepleniya druzhby i sotrudnichestva mezhdru Sovetskim Soyuzom i drugimi sotsialisticheskimi gosudarstvami" (Declaration of the Government of the USSR on the Principles for Developing and Further Strengthening the Friendship and Collaboration Between the Soviet Union and Other Socialist States). 139/

S-E-C-R-E-T

S-E-C-R-E-T

countries ... in the first period of constructing a new social structure. Recently the Soviet government has repeatedly posed before the socialist countries the question of recalling its advisers.

"In view of the fact that these countries now have trained personnel in all phases of economic and military activity, the USSR considers it urgent to review jointly with other socialist states the question of the feasibility of the further stay of Soviet advisers in these countries."\*

---

\* The declaration also states that the stationing of Soviet troops on Satellite soil can take place only with the agreement of the country concerned in accordance with the Warsaw Pact.

S-E-C-R-E-T

**Page Denied**

Next 7 Page(s) In Document Denied

**SECRET**



50X1



**SECRET**

50X1