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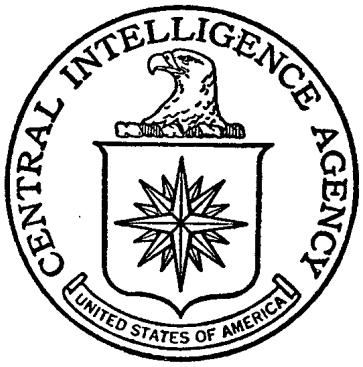
No 3

Economic Intelligence Report

SOVIET TRADE WITH EASTERN EUROPE THROUGH 1965: PATTERNS AND PROSPECTS



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FOREWORD

This report covers planned Soviet trade with the European Satellites during 1961-65 with the exception of Albania. Albania has been excluded, for its current status in Soviet economic plans for the Satellite area is uncertain, partly as a result of politico-ideological disagreements with the USSR.

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SOVIET TRADE WITH EASTERN EUROPE THROUGH 1965: PATTERNS AND PROSPECTS*

Summary and Conclusions

The sizable increase in Soviet-Satellite trade projected through 1965 reflects the maturing of an important aspect of a Soviet policy initiated late in 1956 that seeks to perpetuate Soviet hegemony over the European Satellite countries through the establishment of some measure of mutuality of economic interests as the basis for continued Satellite economic growth.** Through a series of interlocking 5-year trade agreements, coextensive with their mutually coordinated national economic plans, the USSR and the European Satellites are jointly evolving a pattern of production and intra-Bloc trade that strives for greater efficiency in the utilization of area-wide resources through the implementation of the program for coordinated economic development in Eastern Europe fostered by the Council for Mutual Economic Assistance (CEMA). The planned expansion in and the pattern of Soviet-Satellite trade, however, will not necessarily result in the optimum allocation of the available resources in the Satellites or in the most rational development of the Satellite economies in any abstract sense. Rather, given the current political division between East and West -- a division that finds the Satellite countries completely under Moscow's sway -- there appears to be no realistic or practical alternative to Satellite economic development focused on and consonant with the requirements of the Soviet Bloc.

Aggregate Soviet-Satellite trade is expected to exceed $9,000 million*** by 1965, increasing more than 50 percent above the level of $5,900 million in 1960. Thus the average annual rate of growth in trade during 1961-65 is expected to approximate 9 percent, generally equaling the planned annual increases in gross industrial production in the countries of the Soviet Bloc. At the same time, Soviet-Satellite trade is expected generally to increase at a somewhat more rapid pace than the total trade of the CEMA countries, so that by 1965 the share of this trade in aggregate Soviet and Satellite turnover will increase compared with 1960.

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* The estimates and conclusions in this report represent the best judgment of this Office as of 1 September 1962.

** The terms European Satellites, Satellites, and Satellite countries as used in this report refer to all the European Satellites except Albania.

*** All dollar values in this report are given in terms of current US dollars.

Reflecting the continuing priority accorded by the Soviet Bloc to the expansion of its basic industries, Soviet-Satellite trade in certain key commodities essential to these industries is scheduled to grow more rapidly than the aggregate turnover. Thus Soviet shipments of ferrous and nonferrous ores and metals and of semimanufactures, petroleum, and petroleum products are to be increased substantially in line with the rapidly growing demands of industrial expansion in the Satellites. At the same time, in support of recommendations by CEMA calling for expansion of production of raw materials in the Satellites, the USSR is committed to supply significantly increased quantities of machinery and equipment, particularly for the extractive and metallurgical industries in the Satellite countries. The total Soviet exports of machinery and equipment to the Satellite countries, generally keyed to major industrial development projects, reportedly are scheduled to increase from $350 million in 1960 to nearly $1,400 million in 1965.

Satellite industry, which in the past has been the principal supplier of Soviet imports of capital goods (deliveries in 1960, valued in excess of $1,200 million, provided more than 70 percent of Soviet imports in this category), is expected to enlarge significantly the volume and product mix of its exports to meet the requirements of the Soviet Seven Year Plan (1959-65). Aggregate shipments during 1961-65 are expected to range between $8,000 million and $9,000 million (approximately doubling shipments during 1956-60 that totaled approximately $4,500 million). By 1965, Satellite deliveries of machinery and equipment to the USSR are expected substantially to exceed $2,000 million annually, constituting more than 50 percent of the total Satellite exports to the USSR compared with about 43 percent in 1960.

Although still only marginal in comparison with aggregate Soviet production, imports from the Satellite countries fill a number of priority needs and supply a substantial share of the total Soviet requirements for the plan goals of certain sectors of the economy. For example, fulfillment of the targets for the maritime fleet under the current Soviet plan appears to be heavily dependent on the large-scale imports of merchant ships that are scheduled from the Satellite countries. Similarly the achievement of the planned product mix in Soviet output of iron and steel appears to be contingent on Satellite deliveries of rolling mill and related finishing equipment, which are expected to equal about 20 percent of Soviet output of metallurgical equipment during 1961-65. Other important Satellite exports of machinery and engineering products include chemical equipment, vital to the achievement of the large expansion programed for the Soviet chemical industry; railroad rolling stock; power-generating equipment; electronic instruments and installations; machine tools; and equipment for light industry and the food industry.

The rapidly expanding volume of imports of machinery and equipment from the Satellite countries underscores the importance to Soviet plans for economic growth of the increasing complementarity between the economies of the USSR and the Satellite countries. In view of current Soviet difficulties in generating additional exports to countries of the Free World to pay for vital imports of machinery and equipment from the industrial West, it appears reasonable to assume that the over-all import requirements for machinery and equipment posited by the Seven Year Plan could not be met without the decisive contribution made by the Satellite countries.

Thus Soviet-Satellite trade agreements are a key factor in the overall plans for economic development of the Soviet Bloc through 1965. Of significance in this respect is the fact that within the arrangements for coordinating the basic features of the long-term economic plans of the entire Soviet Bloc are provisions in the plans of the member countries to assure that the most important mutual import requirements during the plan period will in fact be met. With the major share of import requirements thus secured and export markets for the output of key industries substantially guaranteed, Soviet and Satellite production can be scheduled to make more efficient use of available manpower and production facilities. Thus the greater predictability of trade should enable Bloc planners to avoid prolonged periods of underemployment of men and machinery that, particularly in the Satellite countries, have impeded economic progress in the past and, as a result, to achieve generally greater output throughout the Soviet Bloc.

Finally, the substantially increased level of Soviet-Satellite trade and the growing Bloc-focused orientation of Satellite economic development that it entails will heighten the interdependence among the CEMA countries and, as a likely consequence, strengthen the political ties that bind them. As an initial result of current trade planning, the share of the USSR in the total trade of the Satellite countries -- already at a high level in 1960 -- will show further increases, especially in the trade of Czechoslovakia, Poland, and Hungary, countries that had previously maintained the most extensive Satellite trade contacts with the West. Inter-Satellite trade, supplementing Soviet trade with individual Satellite countries as an assured supplier of import requirements and a market for export availabilities, also is expected to increase its share of total Satellite trade, particularly as CEMA plans for the economic integration of Eastern Europe are further implemented. To an increasing extent, therefore, the continued growth and development of the Satellite countries depends on and is tied to the growth and development of the entire Soviet Bloc, as determined in its broader outlines by the policy objectives of the USSR.

I. General Survey of Soviet-Satellite Trade

The Soviet "Declaration on the Principles for Developing and Further Strengthening the Friendship and Collaboration Between the USSR and Other Socialist States," issued in October 1956 at the height of the Hungarian revolt, marked a significant turning point in Soviet-Satellite relations. This declaration renounced the exploitative economic policies characteristic of the Stalinist approach to the Satellites and in effect heralded a Soviet commitment to underwrite the economic development of the Satellite countries in return for their continued support of broader policy objectives of the USSR. Pursuant to this commitment, Soviet and Satellite planners, working bilaterally and through CEMA, began as early as 1957-58 to lay the groundwork for area-wide coordinated economic growth, focusing initially on the sectors producing raw materials as well as on the key industrial sectors of the countries of the Soviet Bloc. The Soviet Seven Year Plan, adopted late in 1958, set the tone and provided the general framework for economic development in the Bloc through 1965, and Satellite economic plans, which generally are scheduled to run concurrently during 1961-65, have been extensively geared into it.

Unlike earlier years, however, when the activities of numerous Soviet advisers attached to key Satellite industries as well as the frequent intervention of Soviet ambassadors accredited to the Satellite capitals enabled the USSR to exercise a significant measure of control over the direction of Satellite economic planning, there is little evidence (other than in East Germany, which presents a unique political problem for the Soviet leaders) that current plans for production in the Satellites are in any direct sense dictated by Moscow. Rather, it appears that as long as Satellite planners generally observe the broad policy outlines of the Soviet plan (for example, the emphasis on accelerated development of the chemical, machine building, metallurgical, and power-generating industries), they enjoy virtual autonomy in working out the details of their plans in conformity with the production capabilities and resources of their respective countries, subject to modifications needed to comply with agreements reached through CEMA coordination or bilateral negotiations. Thus, although Soviet import requirements continue to play an important and in certain cases perhaps even a decisive role in determining the allocation of Satellite resources, these requirements generally are not unilaterally imposed by the USSR (as often happened during the Stalinist period) but rather are agreed on in the course of bilateral negotiations.

In support of mutually coordinated long-term plans and to facilitate the realization of the ambitious industrialization programs set

forth therein, the USSR during 1959-60 negotiated for the first time 5-year trade agreements with each of the Satellites, in effect guaranteeing to supply the major share of their import requirements for industrial raw materials and fuels as well as substantial quantities of investment goods required to implement major industrial development projects. In exchange the Satellites are committed to supply increasing quantities of machinery and equipment as well as manufactured consumer goods to help meet the import requirements of the Soviet long-term plan.

A. Direction

Based on the long-term trade agreements between the USSR and the European Satellites, which reportedly account for approximately 90 percent of their reciprocal trade, Soviet-Satellite trade turnover during 1961-65 and in 1965 is estimated as shown in Table 1.*

Soviet trade with the Satellite countries is expected to increase more rapidly than Soviet trade generally, suggesting a further strengthening of Soviet ties with the CEMA market structure. Indeed the actual increase in Soviet-Satellite trade may exceed substantially the estimates in Table 1. Trade data for 1961 show a turnover of nearly $6,500 million, an increase of 10 percent above 1960. 1/** Soviet-Satellite trade agreements for 1962 suggest a further increase in mutual trade of about 12 percent to approximately $7,300 million, a goal that should be attained readily if the rapid increase in the total Soviet foreign trade announced for the first 6 months of 1962 (13 percent above the trade in the corresponding period in 1961) is maintained throughout the year. 2/ Even if such a rapid rate of growth is not maintained over the entire 5-year period, a level of Soviet-Satellite turnover approaching $10 billion in 1965 does not appear to be out of reach.

In spite of the tenuous nature of long-range trade forecasts, this pattern of increases in Soviet-Satellite trade through 1965 can be viewed as a determined move on the part of the USSR to strengthen further its commanding position in the trade of the Satellite countries and, as a corollary, to weaken further the influence of the industrial West. Thus the increase in the Soviet share of total Satellite trade appears to be at the expense of the Free World, whose share in trade generally is to be reduced to about 25 percent. Inasmuch as Satellite plans call for continued rapid expansion of trade with the underdeveloped countries, trade with the industrial West -- and therefore Western influence -- would appear to be primarily

* Table 1 follows on p. 7.

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Table 1

Estimated Soviet Trade with the European Satellites
1956-60 and 1961-65

	Million Current US $		Increase (Percent)	Million Current US $		Increase (Percent)	
	1956-60	1961-65		1960	1965	Total	Average Annual
Total Soviet trade	45,900	70,000	53	11,200	16,000	43	7
Soviet-Satellite trade	24,000	38,000	60	5,900	9,100	54	9
Of which:							
East Germany	8,340	12,000	44	1,980	2,900	46	8
Czechoslovakia	5,130	8,500	66	1,280	2,100	64	10
Poland	3,650	6,000	64	880	1,400	59	10
Bulgaria	2,200	3,800	73	630	900	43	7
Hungary	1,990	4,000	101	560	900	61	10
Rumania	2,400	3,700	54	540	900	67	11

affected. The anticipated changes in the Soviet share of Satellite foreign trade and the Satellite share of Soviet foreign trade between 1960 and 1965 are shown in Table 2.

Table 2

Soviet Share of European Satellite Trade and Satellite Share of Soviet Trade 1960 and 1965

Percent

	Soviet Share of Satellite Trade		Satellite Share of Soviet Trade	
Country	1960	1965	1960	1965
East Germany	43	45	18	18
Czechoslovakia	34	38	11	13
Poland	30	34	8	9
Bulgaria	53	55	6	6
Hungary	29	36	5	6
Rumania	40	44	5	6
Total	37	40	52 a/	57 a/

a. Because of rounding, components may not add to the totals shown.

The extent to which Satellite trade can be oriented further toward the Soviet Bloc will depend in large measure on the success of the CEMA specialization program. For the immediate future the industrial West continues to be a highly important source of Bloc imports of complex machinery and equipment, special steels, selected chemicals, and, perhaps most significantly, advanced production technology. Dependence on the West for these imports can be reduced only if the CEMA program, in addition to raising the over-all level of industrial output to afford the savings derived from economies of scale, enables Bloc industries to undertake the extensive research and development effort required to make continuing qualitative and technological improvements. It is likely that the growth of the European Common Market -- viewed with considerable apprehension by the Satellite countries as a direct threat to their trade with the West -- will act as a spur to implementation of the CEMA program.

B. Composition

In its wider framework the composition of the substantially enlarged volume of Soviet-Satellite trade during 1961-65 is expected to follow traditional lines. The USSR will continue to export primarily industrial raw materials, fuels, and foodstuffs to the more developed Satellites -- East Germany, Czechoslovakia, and, to a lesser extent, Hungary and Poland -- in exchange for machinery and equipment and (increasingly in recent years) manufactured consumer goods while exporting machinery and equipment and semifabricated goods to the less developed Satellites -- Bulgaria and Rumania -- in exchange principally for raw materials and foodstuffs. This dual pattern of Soviet-Satellite trade is clearly shown in Table 3.*

Within this over-all framework, however, available information suggests that the pattern of Soviet-Satellite trade will undergo some noteworthy changes. Reflecting the growing industrialization of the Satellite economies, machinery and equipment and manufactured consumer goods will comprise an increasing share of the total exports to the USSR. At the same time, the USSR apparently will greatly step up its own exports of machinery and equipment to the Satellites, sending an increasing share of such exports to East Germany and Czechoslovakia, which in the past few years imported only negligible quantities of Soviet investment goods. The traditional Communist emphasis on investment in heavy industry is nowhere more apparent than in these trade plans, which furnish little or nothing in the way of specific quantities of foodstuffs and other consumer items while offering the most detailed specifications for movement of capital equipment and industrial raw materials.

1. Soviet Exports to the European Satellites

Soviet raw materials are the lifeblood of Satellite industry. In spite of substantial investments in indigenous production of these commodities, the raw materials base of the Satellite countries is becoming less adequate in terms of the growing requirements of its processing industries. The Satellite countries will be forced to import vastly increased quantities of key primary goods to implement their current long-term plans. The current Soviet shares of the total Satellite imports of essential raw materials are shown in the following tabulation:

Commodity	Percent of Total
Crude oil	96
Iron ore	74
Pig iron	88
Raw cotton	62
Grains	71

* Table 3 follows on p. 10.

Table 3

Commodity Composition of Soviet-Satellite Trade
1960

Percent of Total

Category	Soviet Exports		Soviet Imports	
	To the Developed Satellites [a]	To the Less Developed Satellites [b]	From the Developed Satellites [a]	From the Less Developed Satellites [b]
Machinery and equipment	9	28	51	13
Fuel, mineral raw materials, and metals	40	35	20	28
Chemical products, fertilizer, and rubber	3	5	4	2
Raw materials of plant and animal origin	14	10	1	13
Food products and raw materials for the manufacture of food products	19	4	2	22
Manufactured consumer goods	2	6	18	16
Other	13	12	4	6

a. East Germany, Czechoslovakia, Hungary, and Poland.
b. Bulgaria and Rumania.

A comparison of Soviet exports of selected raw materials and fuels to the European Satellites during 1956-60 and planned exports during 1961-65 is given in Table 4.*

In addition to supplying the bulk of Satellite import requirements for essential raw materials and fuels, the USSR is committed (in part under long-term credits extended during 1959-60) to support Satellite industrial and agricultural investment plans through the delivery of substantially increased quantities of machinery and equipment. Indicating the seriousness with which Soviet leaders regard the need for continued rapid economic growth in the Satellite countries, Soviet exports of machinery and equipment to the Satellites reportedly are scheduled to increase 300 percent, totaling almost $1,400 million in 1965 compared with $350 million in 1960 and comprising almost one-third of the total exports compared with little more than 10 percent at the present time. 3/

The significance of this vast increase in Soviet exports of capital equipment is enhanced by the fact that Soviet deliveries generally are designed to assist the implementation of key development projects in the Satellites. Thus the USSR is to play a major role in the expansion of the Satellite iron and steel industries (the mainstay of Satellite industrial growth) by furnishing not only major items of metallurgical equipment but also technical assistance and monetary credits. 4/ The USSR, with the cooperation of Czechoslovakia and East Germany, will furnish much of the equipment required for the Kremikovtsi Metallurgical Combine, reportedly Bulgaria's most important investment project during 1950-65. Soviet rolling mills are to be installed in the East Slovak Ironworks at Kosice, the major new construction project of the Czechoslovak iron and steel industry. The expansion of the Lenin Steel Plant in Krakow, which is to furnish the bulk of the increased output of iron and steel products in Poland, also involves the installation of additional Soviet rolling mill and finishing equipment. Finally, the USSR will furnish the majority of the rolling mills for the integrated steel plant at Galati, the paramount industrial objective of the Rumanian Six Year Plan (1960-65).

The USSR also will supply a substantial share of the electric power generating equipment -- particularly large-size power generators -- required for the expansion of electric power output in the Satellite countries during the next few years as well as much of the power transmission equipment for the construction of high-voltage lines. These lines, to be integrated by 1965 into a Bloc-wide high-voltage power grid, will greatly increase the efficiency of electric power generation and distribution, particularly in the Satellite area,

* Table 4 follows on p. 12.

Table 4

Selected Soviet Exports to the European Satellites a/
1956-60 and Planned for 1961-65

Commodity	Unit	1956-60	1961-65 Plan	Increase (Percent)	1960	1965 Plan	Increase (Percent)
Total Soviet exports	Million current US $	12,700	18,500	46	3,100	4,500	45
Soviet exports to the European Satellites							
Coal	Million metric tons	27.3	39.6	45	7.1	9.0	27
Crude oil	Million metric tons	21.8	56.2	158	6.2	15.0	142
Iron ore	Million metric tons	59.7	100.0	68	13.2	25.0	89
Pig iron	Million metric tons	4.0	8.5	112	0.9	2.2	144
Rolling mill products	Million metric tons	8.2	12.0	46	2.1	2.2	5 b/
Apatite concentrate	Million metric tons	4.8	8.0	67	1.2	2.5	108

a. Inasmuch as supplementary long-term trade agreements with the European Satellites reportedly provide for increased Soviet deliveries of selected raw materials, fuels, and capital equipment, the quotas shown here may be minimal.

b. Soviet deliveries to the Satellites are expected to reach a peak about 1963-64 and then fall off as Satellite production facilities are put into full operation. By 1965 the Satellite countries intend to be nearly self-sufficient in output of rolling mill products.

and will reduce the local power shortages that in the past have hampered the development of Satellite industries.

Other Soviet exports of engineering products to the Satellites are to include machinery and equipment for the machine building, chemical, and petrochemical industries as well as tractors and agricultural implements to assist the conversion to mechanized agricultural production.

The USSR also will continue to supply substantial quantities of agricultural raw materials for industrial and consumer use. Whereas such exports will continue to be of great importance to countries chronically experiencing food deficits such as East Germany, their over-all share in the total Soviet exports is expected to decline significantly.

2. European Satellite Exports to the USSR

Satellite exports to the USSR during 1961-65 will consist increasingly of machinery and equipment as well as of manufactured consumer goods, as the Satellite countries will continue to supply the preponderant share of aggregate Soviet import requirements for these products. Whereas total Soviet-Satellite trade is expected to increase by more than 50 percent in 1965 compared with 1960, Satellite exports of machinery and equipment are expected to increase by about 75 percent, substantially exceeding $2,000 million in 1965 and accounting for more than one-half of the aggregate Satellite exports to the USSR in that year compared with approximately 43 percent in 1960.

Satellite exports represent an important and integral part of planned domestic availabilities in the USSR and therefore are required to meet the projected goals of the Seven Year Plan. In comparison with the aggregate volume of machinery and equipment produced by Soviet industry, imports from the Satellites will continue, with few exceptions, to be relatively marginal in quantity. These imports, however, will play a significant role in facilitating the modernization of inventories of capital equipment in certain industries, in speeding the development of production of new types of products, and in assisting the introduction of new techniques. Of particular importance in terms of quantity and quality are continuing large-scale imports of transportation equipment, which in 1960 accounted for approximately 30 percent of the total imports of machinery and equipment. The major share of the expanding Satellite production of merchant and fishing vessels is earmarked for export to the USSR and represents a significant part of planned accessions to the Soviet merchant and fishing fleets. Similarly, extensive imports of railroad equipment -- diesel and electric locomotives from Czechoslovakia, freight and tank

cars from Poland, self-propelled diesel-electric trains from Hungary, and modern refrigerator trains and cars as well as passenger cars from East Germany -- will contribute significantly to the modernization and increased efficiency of the Soviet railroad network. Imports of automotive equipment are expected to be small, and their importance lies primarily in providing special-purpose vehicles not generally produced in the USSR.

Imports of equipment for the chemical industry from the Satellite countries, notably Czechoslovakia and East Germany, are scheduled to exceed $700 million during 1961-65, more than tripling imports during 1956-60. These planned imports represent a sizable share of the total Soviet import requirements for chemical equipment and are essential if the USSR is to succeed in its priority expansion program for the chemical industry. Important also are scheduled imports of Satellite metalworking machine tools. Shipments from East Germany, Czechoslovakia, and Hungary are expected approximately to double, and although the total quantity to be imported remains small relative to the total domestic production in the USSR, these imports provide high-quality special-purpose tools not being produced in large quantities within the USSR. To a considerable degree, Satellite machine tool industries, specializing increasingly on high-precision equipment that requires a high ratio of skilled labor to material input, complement the Soviet machine tool industry, which has concentrated on mass production of general-purpose tools. Imports from the Satellite countries, therefore, serve to provide some of the tools and advanced technology essential to implement Soviet plans for improving the quality of the metalworking machinery base of the USSR.

Other priority imports include metallurgical equipment, again mostly advanced special-purpose types of rolling mills and equipment for the construction industry, for electric power generation (mostly small and mobile types of equipment), and for the electronics industry -- especially industrial control and regulating instruments and civilian telecommunications equipment. Substantially increased quantities of machinery for food processing and light industry also are included.

In addition to these imports of machinery and equipment, Soviet-Satellite trade agreements provide for steadily rising imports of manufactured consumer goods in line with Soviet objectives for increasing the standard of living in the USSR. Traditional imports of industrial and agricultural raw materials from the Satellite countries also are scheduled to increase, but their share in the total imports from the Satellite countries is expected to show a substantial decrease.

3. Impact of Soviet-Satellite Trade on the Economies of the USSR and the European Satellites

The impact of this substantially enlarged Soviet-Satellite trade program on the internal economy of the USSR is difficult to assess. Generally speaking, it is believed that the increase scheduled in exports of raw materials will not impose a significant strain on supplies required for the domestic economy and will not delay priority projects. Planned exports of certain types of machinery and equipment -- for example, metallurgical, power generating, and chemical equipment -- may have required some adjustments in domestic programs. The nature and extent of such adjustments cannot be readily determined, as it is the purpose of long-term economic planning and plan coordination to allocate available resources in accord with over-all policy objectives, including in this instance the economic buildup of the Satellite countries. Moreover, Soviet exports to the Satellites cannot be considered independently of Soviet imports from the Satellites. Because the USSR remains a substantial net importer of machinery and equipment from the Satellites, it is believed that the Soviet industrial potential is strengthened rather than weakened as a result of intra-Bloc trade in this field.

From the point of view of the Satellite countries, the substantial expansion in trade with the USSR must be considered the sine qua non for continued rapid economic (particularly industrial) growth. The expansion and the pattern of Soviet-Satellite trade, however, will not necessarily result in the optimum allocation of Satellite resources or the best development of their economies in any abstract sense. Rather, given the current political division between East and West, which finds the Satellite countries completely under Moscow's sway, there appears to be no realistic or practical alternative to Satellite economic development focused on and consonant with the requirements of the Soviet Bloc. Within this framework the USSR is necessarily the major supplier of Satellite import requirements for raw materials and certain investment goods as well as the principal market for the output of key Satellite industries. The expansion of Soviet-Satellite trade, therefore, appears to be the basic requisite for insuring an increasing flow of raw materials to the Satellite countries and for obtaining additional markets for their industries. The actual pattern of Soviet-Satellite trade currently evolving appears to give substantial scope to the economic development of the Satellite countries in conformity with their natural and human resources. Satellite export commitments generally are in keeping with production capabilities, although exports compete with domestic requirements to a greater extent than in the USSR. Nevertheless, it appears that, unlike the past, there are relatively few instances where planned export commitments demonstrably impede the achievement of

domestic plan goals.* On balance it is believed that the volume and pattern of Soviet-Satellite trade through 1965 will contribute substantially to the implementation of Satellite plans and will assure rapid development of the Satellite economies.

4. Effect of Soviet-Satellite Trade on Economic Integration and Division of Labor in Eastern Europe

The long-term trade agreements between the USSR and the European Satellites, supplemented by long-term trade agreements between the Satellite countries, are expected to contribute significantly to the growth of a more interdependent Eastern European economy. Insuring, for the plan period, the supply of a major share of the import requirements of the Soviet Bloc countries and at the same time guaranteeing the principal markets for their export commodities, these trade agreements should provide not only the element of economic stability and predictability necessary for expanding output but, more significantly, a motivation for the reallocation of resources in accord with the pattern of intra-Bloc specialization agreed on. Such a reallocation provides an opportunity to secure economies of scale in production and, to the extent that reallocation avoids major diseconomies of location with respect to markets or access to the factors of production, also provides a basis for a territorial division of labor that both reduces the costs of production and strengthens the cohesive forces in the Soviet Bloc.

After a rather slow beginning during 1958-59, the Satellite countries now appear to be making considerable progress in the implementation of this CEMA program. It is not yet clear, however, to what extent the USSR will actively participate. Soviet spokesmen have repeatedly stressed the fact that, possessing vast and diverse resources and the domestic market necessary to exploit them, the USSR will intensively build up all sectors of its highly complex economy. Such comprehensive economic development, however, is not incompatible with extensive participation in the CEMA program, particularly in view of the fact that the pattern of industrial specialization provided for therein generally is of an intraindustry nature -- that is, specialization assignments are made for particular types and models of machinery and equipment or for specific components rather than for an entire range of production. On the basis of assignments already made, the USSR is to specialize in production of certain larger and sometimes technologically more advanced types of machinery not generally produced in the Satellite countries, so that, in addition to meeting its

* It is not unlikely, however, that shortfalls in Satellite production will lead to curtailments in Satellite programs rather than to reductions in exports to the USSR.

own requirements for these types of machinery, the USSR assumes responsibility for increasingly supplying Satellite needs. Available information on planned Soviet deliveries of industrial products to the European Satellites (including the metallurgical, power-generating, and power-transmission equipment already briefly discussed) suggests that the pattern of Soviet exports generally conforms to these specialization assignments.

Similarly the pattern of Soviet imports of machinery and equipment from the Satellite countries appears to conform generally to the CEMA specialization program. In spite of the rapid industrial expansion maintained in the USSR during the current Seven Year Plan (and quite possibly because of it), imports of selected engineering products for nearly all sectors of the Soviet economy must be substantially increased. Moreover, the dynamics of Soviet industrial expansion, which is expected for the foreseeable future to tax available resources, suggests that the USSR will continue to rely on Satellite industries to supply increasing quantities of selected machinery, equipment, and manufactured consumer goods to augment domestic production. As a result, it appears reasonable to expect that Soviet-Satellite trade will be an effective force for promoting and intensifying intra-Bloc division of labor and, in a larger sense, intra-Bloc economic integration.

II. Trade with Individual European Satellite Countries

A. East Germany

East Germany, the most important trading partner of the USSR in 1960, is expected to maintain its leading position in Soviet trade throughout the current plan period. Soviet - East German trade has expanded rapidly during the past few years, with Soviet exports (principally industrial raw materials, fuels, and foodstuffs) increasing about 120 percent, from $480 million in 1955 to $1,050 million in 1960, and Soviet imports (principally machinery and equipment and manufactured consumer goods) increasing 82 percent, from $510 million in 1956 to $930 million in 1960. The over-all rate of growth of Soviet - East German trade during this period, about 100 percent, exceeded the rates of growth of the total Soviet foreign trade and the total East German foreign trade, respectively. With trade turnover totaling $1,980 million in 1960, Soviet - East German trade accounted for nearly one-fifth of Soviet foreign trade and for more than two-fifths of East German foreign trade. 5/

Current indications are that Soviet - East German trade during 1961-65 will expand more rapidly than originally anticipated, although still not so rapidly as during 1956-60. The original 5-year Soviet - East German trade agreement, negotiated in 1959 to coordinate long-term

economic plans during 1961-65, envisaged an aggregate turnover of approximately $10.6 billion. 6/ Considering the fact that annual trade protocols were expected to raise this total by 10 percent, the resulting 5-year turnover of $11.7 billion would exceed the turnover of the preceding 5-year period by 40 percent. 7/ At the same time, the initially planned turnover for 1965 (approximately $2.6 billion to $2.7 billion) would exceed the level of trade in 1960 by approximately 35 percent, representing an average annual rate of growth of about 6 percent, less than one-half of that prevailing during the preceding 5-year period.

Since the signing of the basic trade agreement in 1959, however, East Germany has been forced to revise its overly ambitious long-term economic plan and seek closer economic ties with the USSR to insure fulfillment of its priority production and export program.* A supplementary trade agreement was negotiated to cover the period 1962-65 providing for additional mutual deliveries of key raw materials, semifabricates, and machinery and equipment. Moreover, the USSR reportedly agreed to extend a long-term credit of approximately $475 million to East Germany, presumably to ease the adjustments attending the revisions of the economic plan.** 8/ As a result of the new trade and aid agreements, Soviet - East German trade is expected to develop an accelerated pace during the remainder of the current plan period and should reach a level of almost $3 billion by 1965. The implied average annual rate of growth in this trade, about 8 percent, slightly exceeds that estimated for the total Soviet and the total East German foreign trade.

1. Soviet Exports

Soviet exports to East Germany have traditionally comprised primarily industrial raw materials, fuels, semifabricates, and foodstuffs, for the bulk of which the highly industrialized East German

* East Germany's campaign to reduce the vulnerability of its industries to possible Western embargo action, threatened in connection with the Berlin crisis, undoubtedly is another reason behind East German efforts to develop closer ties with the USSR. Although recent proposals by East Germany to expand interzonal trade imply a modification of its "invulnerability" campaign, they may have been motivated largely by a Bloc decision (for both economic and political reasons) to exploit the unique potential of interzonal trade as an entry into the Common Market.

** The $310 million Soviet credit to East Germany announced in connection with the signing of the Soviet - East German trade agreement in February 1962 is believed to be a part of, rather than an addition to, the earlier credit of $475 million.

economy, operating on a very narrow domestic natural resources base, depends on the USSR. The far-reaching extent of this dependence is clearly reflected in the following statistics on the share of the USSR in total East German imports of selected commodities in 1961: crude oil, more than 90 percent; hard coal and coke, more than 50 percent; iron ore, more than 100 percent; rolled ferrous metals, 80 percent; chemical products, 60 percent; cotton, 80 percent; and grain, 100 percent. 9/

The extensive ties of East German industry to the Soviet natural resources base are expected to continue and may even become stronger as the production programs of the two countries are being progressively coordinated. Under the terms of the Soviet - East German Five Year Trade Agreement (1961-65), the USSR is committed substantially to increase its exports of industrial raw materials and fuels as required to meet the production goals of the East German economy. Although the quotas stipulated in the long-term trade agreement reportedly have since been increased, they are listed in Table 5 as indicative of likely minimum levels of trade.

Table 5

Selected Soviet Exports to East Germany
1956-60 and Planned for 1961-65

Commodity	Unit	1956-60	1961-65 Plan	Increase (Percent)
Coal	Million metric tons	19.60	27.15	39
Coke	Million metric tons	4.74	8.00	69
Crude oil	Million metric tons	6.26	15.58	149
Iron ore	Million metric tons	8.52	10.19	20
Pig iron	Million metric tons	2.50	6.50 a/	160
Rolling mill products	Million metric tons	4.37	7.14	63
Apatite concentrate	Million metric tons	1.94	3.00	55
Lumber and lumber products	Million cubic meters	3.94	7.56	92
Cotton	Million metric tons	0.41	0.47	15

a. Estimated.

Other exports of raw materials provided for in the agreement (although no specific quotas were announced) included aluminum, copper, lead, zinc, and diverse ferroalloys. Exports of Soviet

machinery and equipment, which had never provided a large share of the total Soviet exports to East Germany, are to increase also. Here again, specific exports reflect the priority needs of East German industry under its Seven Year Plan, for chief emphasis is placed on metallurgical equipment, equipment for the chemical industry, oil well drilling equipment, materials handling equipment, excavators and road-building equipment, machine tools, ball bearings, and navigation instruments. Exports of foodstuffs, previously comprising almost 30 percent of Soviet exports to East Germany, are scheduled to increase somewhat in absolute amounts but are expected to decline as a share of total Soviet exports. 10/

As already stated, the actual level of Soviet exports may be expected to exceed the quotas initially set. The supplementary long-term trade agreement for 1962-65, signed after prolonged negotiations and apparently including a thorough Soviet review of East German production and investment plans, reportedly commits the USSR to additional deliveries of rolling mill products, nonferrous metals, chemicals, nonmetallic minerals, lumber, ores, and foodstuffs. In addition, the USSR is committed to increase deliveries of machinery and equipment, including the types of equipment (machine tools, metallurgical equipment, and chemical equipment) required to assist East German industry in reducing its vulnerability to Western economic pressures.

2. East German Exports

Apart from the political considerations involved, the Soviet decision to underwrite further economic growth in East Germany (manifested by the commitment to supply in increasing quantities the raw materials and fuels essential to the achievement of East Germany's long-term plan goals and the extension of additional credits) was most likely motivated also by the desire to insure an increasing flow of East German counterdeliveries (primarily machinery and equipment), which in the past have provided a significant share of Soviet import requirements. East Germany's importance as a supplier of machinery and equipment to the USSR is reflected in Table 6,* in which are listed selected East German exports to the USSR during 1956-60 with an indication of their share in the total Soviet imports in 1960.

Further enhancing the importance of the already substantial share of East German industry in Soviet imports of engineering products is the fact that East German deliveries provide advanced, specialized types of machinery and equipment, including automated and semiautomated installations. Deliveries of ships and marine equipment

* Table 6 follows on p. 21.

Table 6

Selected Soviet Imports from East Germany
1956-60

Commodity	Soviet Imports from East Germany 1956-60 (Million Current US $)	East German Share in Total Soviet Imports 1960 (Percent)
Total imports from East Germany	4,000	18
Of which:		
Machinery and equipment	2,360	40
Of which:		
Machine tools	190	51
Ships and marine equipment	470	32
Power-generating equipment	110	35
Equipment for light industry and the food industry	230	31
Chemical equipment	80	20
Construction equipment	250	76
Rolling mill equipment	100	61
Railroad equipment	370	46

account for nearly one-eighth of the total annual volume of additions to the Soviet maritime, fishing, and inland waterway fleets, including more than 25 percent of the additions to the oceangoing merchant fleet of the USSR. [redacted] 50X1

[redacted] 50X1

East Germany furnishes about 60 percent of the total Soviet imports of railroad passenger cars and accounts for nearly 25 percent of annual additions to the Soviet passenger car park. Very important also are East German deliveries of refrigerated freight cars, for which East Germany is the sole foreign source of supply, accounting for at least 30 percent and perhaps as much as 50 percent of the total annual deliveries to the Soviet railroads. 12/

As a traditional producer of high-grade machine tools, East German industry supplies many machines of types and qualities not produced in sufficient quantities in the USSR, such as certain types of gearmaking machines, precision lathes, and specialized forging and pressing tools, which help to modernize and increase the efficiency of the Soviet machine tool inventory. East German deliveries of chemical equipment, which in 1955 accounted for about one-half of the total Soviet imports of chemical plant and installations, have not kept pace with rapidly mounting Soviet requirements, in part as a result of the East German effort to expand production of chemicals. Nevertheless, East Germany remains an important supplier of oxygen-producing equipment, electrolytic cells, and refrigeration equipment.

The USSR also relies on East Germany for significant supplies of power equipment, such as transformers, rectifiers, and cable. In 1960, more than one-third of Soviet imports of this equipment came from East Germany. Also, more than one-half of Soviet imports of scientific apparatus are supplied by East German industry, including particularly high-precision optical and electronic instruments for research. 13/

The long-term Soviet - East German trade agreement envisages substantial increases in over-all East German deliveries of machinery and equipment to the USSR during 1961-65, even though in specific categories -- notably construction equipment, ships, and marine equipment -- the deliveries initially agreed on are markedly below actual deliveries during 1956-60. Although subsequent agreements between the USSR and East Germany reportedly call for additional deliveries above the quotas stipulated in the long-term

agreement, these quotas are listed in Table 7 as indicative of a possible minimum level of East German deliveries to the USSR during the current plan period.

Table 7

Selected East German Exports of Machinery and Equipment to the USSR
1956-60 and Planned for 1961-65

Commodity	Million Current US $ 1956-60	1961-65 Plan	Increase or Decrease (Percent)
Machinery and equipment	2,360	3,500	48
Of which:			
Machine tools	190	320	68
Ships and marine equipment	470	380	-19
Equipment for light industry and the food industry	230	360	57
Chemical equipment	80	180	125
Construction equipment	250	110	-56
Refrigerator cars and trains	40	110	175
Railroad passenger cars	210	380	79
Chemicals	280	450	61
Manufactured consumer goods	450	620	38

According to the terms of the supplementary trade agreement for 1962-65, East Germany is committed to make additional deliveries to the USSR of machinery and equipment, including presses, diesel engines and diesel generating plants, pumps and compressors, railroad cars, trucks, ships, agricultural machinery, and installations for radio and telecommunications. Deliveries of chemicals, especially plastics and synthetic fibers, also are to be increased above the quotas initially agreed on in the long-term agreement. 14/

The pattern of planned East German deliveries to the USSR during 1961-65 appears to be favorable to a rational development of the East German economy. In conformity with specialization assignments

by CEMA* and with the objectives of East German foreign trade, it provides for substantial increases in deliveries, primarily of those engineering products in the manufacture of which East Germany has traditionally specialized and presumably reached a fairly high level of production efficiency -- notably machine tools, specialized railroad equipment, refrigeration equipment, textile mills, and optical and communications equipment. Deliveries of such more skilled-labor-intensive, high value-added types of machinery and equipment are to increase substantially, enabling East Germany to capitalize on its major "natural" resource, skilled labor, but deliveries that may be classified generally as more material-intensive (low value-added) are scheduled to decline -- notably equipment for the building industry and ships, which consume large quantities of iron and steel products, most of which must be either imported or manufactured from imported raw materials. Although additional contracts for ships and marine equipment to be let under the supplementary trade agreement may bring the level of their deliveries to that attained during 1956-60, the combined share of construction equipment, ships, and marine equipment in the total East German deliveries of machinery and equipment to the USSR (about 30 percent during 1956-60) is expected to be no more than 15 to 20 percent during 1961-65. Similarly the increase in deliveries of chemicals is to be concentrated primarily on plastics and synthetic fibers -- that is, on the more complex and skilled-labor-intensive chemicals -- and durable consumer goods are expected to provide an increasing share of the total deliveries of consumer goods. To sum up, planned East German deliveries to the USSR during 1961-65 are expected to concentrate increasingly on skilled-labor-intensive commodities in production of which East Germany has achieved a fairly high level of efficiency, permitting the East German economy to exchange the high skill of its labor for essential raw materials, fuels, and foodstuffs, which generally are in short supply.

To the extent that the planned increase in trade between the USSR and East Germany during 1961-65 materializes, the East German

* East German specialization assignments reportedly include certain types of rolling mill equipment, certain types of ships, equipment for cement factories, certain types of metalcutting tools as well as forging and pressing tools, textile machinery, equipment for the chemical industry, elevator and transport equipment, railroad rolling stock, geological prospecting equipment, trucks, tractors, and so on. At the same time, East Germany reportedly has been assigned sole responsibility for supplying the import requirements of CEMA countries for double-decker railroad passenger cars, refrigerator cars with mechanical cooling installations, and continuous and semicontinuous wire drawing and foil rolling mills. 15/

economy will become still more dependent on and more closely tied into the Soviet economy. Such closer economic ties, reflected also in greater scientific and technical cooperation as well as in the East German decision to adopt Soviet GOST production norms in place of traditional German DIN norms (Deutsche Industrie Normen), have long been a political goal of the East German regime, which realizes that the future of an independent East Germany can be guaranteed only through the strong political and economic backing of the USSR. The advantages accruing to the USSR from this arrangement will not be entirely economic. Although the East German industrial plant will provide an important adjunct to Soviet industrial capabilities, the maintenance of a military and political stronghold in west-central Europe affords the USSR an important position of strength in the continuing struggle between East and West.

B. Czechoslovakia

Czechoslovakia, the second largest trading partner of the USSR, is expected to plan an increasingly important role in Soviet foreign trade as CEMA specialization assignments and bilateral Soviet-Czechoslovak cooperation agreements forge closer links between the Soviet and Czechoslovak economies. Soviet trade with Czechoslovakia rose 73 percent from 1955 to 1960, when Soviet exports (consisting primarily of industrial raw materials, fuels, and foodstuffs) increased 75 percent, from $360 million in 1955 to $630 million in 1960, and Soviet imports (consisting primarily of machinery and equipment, uranium ore, and manufactured consumer goods) increased 67 percent, from $390 million in 1956 to $650 million in 1960. The aggregate turnover increased from $740 million to $1,280 million. 16/

In spite of an anticipated slowdown in its rate of growth during 1961-65 compared with 1956-60, Soviet-Czechoslovak trade is expected to increase at a rate substantially in excess of either Soviet or Czechoslovak foreign trade generally. The turnover in 1965 is expected to exceed $2,100 million, representing an increase of 64 percent above 1960, or an average annual rate of growth in trade of 10 percent compared with 12 percent during the earlier period. In view of the fact that Soviet and Czechoslovak foreign trade is expected to increase by only 43 and 47 percent, respectively, during this period, 17/ the expansion in mutual trade is expected to result in a further strengthening of the economic ties between the two countries -- the Czechoslovak share of total Soviet foreign trade probably will increase from about 11 percent to 13 percent and the Soviet share in Czechoslovak foreign trade from about 34 percent to 38 percent.

1. Soviet Exports

The Soviet-Czechoslovak Five Year Trade Agreement (1961-65), the first long-term trade agreement to be based on and integrated into both Soviet and Czechoslovak long-term national economic plans, establishes the over-all framework for the pattern and growth of trade between the two countries during the next few years. Signed in April 1960 after prolonged technical discussions designed to coordinate related national production programs, this agreement provides for significant increases in Soviet deliveries of industrial raw materials and fuels that already supply the bulk of the rapidly growing import requirements of Czechoslovak industry. The singular importance of these commodities for the further development of the Czechoslovak economy is demonstrated by the fact that 1 out of every 2 tons of steel produced in Czechoslovakia is made from Soviet iron ore and that half of the cotton textiles produced are made from Soviet cotton. 18/ The share of Soviet deliveries in the total Czechoslovak imports of selected raw materials and fuels in 1960 was as follows (in percent): Iron ore, 75; pig iron, 64; nickel, 94; copper, 60; crude petroleum, almost 100; coal, 44; cotton, 48; and sawn lumber, 79: 19/ Czechoslovak dependence on the USSR for the supply of some of these materials is expected to increase further during the next few years, particularly in the iron and steel industry -- the heart of Czechoslovakia's machine building industries -- where Soviet deliveries by 1965 will supply 85 percent of the total imports. 20/ Similarly the expansion of the Czechoslovak chemical industry, particularly the development of plastics and production of synthetic fibers, will be based primarily on Soviet supplies of crude petroleum. 21/ In Table 8 are compared planned Soviet deliveries of selected raw materials to Czechoslovakia during 1961-65 with actual deliveries during 1956-60.

Table 8

Selected Soviet Exports to Czechoslovakia
1956-60 and Planned for 1961-65

Commodity	Million Metric Tons		
	1956-60	1961-65 Plan	Increase (Percent)
Coal	4.01	8.50	112
Crude oil	7.48	22.00	194
Iron ore	19.87	38.00	91
Apatite concentrate	0.62	1.18	90

The long-term trade agreement also provides for a substantial growth in Soviet exports of machinery and equipment, which reportedly have been accelerated by the CEMA specialization program. These exports in 1961 increased 37 percent above the level of $60 million in 1960, and a further increase of 28 percent is scheduled for 1962. 22/ Deliveries of Soviet tractors are scheduled to increase from 6,081 units shipped during 1956-60 to 15,000 during 1961-65, an increase of 147 percent, and Soviet excavators from 425 units shipped during 1956-60 to 1,240 during 1961-65, an increase of nearly 200 percent. 23/ In addition, the USSR is scheduled to supply metallurgical equipment (notably a continuous wide-plate rolling mill for the Eastern Slovak Ironworks at Kosice, the major investment project of the Czechoslovak iron and steel industry during 1961-65); specialized metalcutting and metalforming machine tools not produced either in Czechoslovakia or in the other Satellite countries; equipment for the Rumania-Czechoslovakia high-voltage electric power transmission line; oil well drilling equipment; telecommunications equipment; and various measuring instruments for geological surveys, including gravimeters, seismic sets, and other specialized types of equipment. 24/ As a result of planned increases in deliveries, the share of machinery and equipment in aggregate Soviet exports to Czechoslovakia is expected to rise from 10 to about 15 percent.

2. Czechoslovak Exports

Influenced primarily by its far-reaching dependence on the USSR for the supply of essential raw materials and fuels, Czechoslovakia to a considerable extent patterned the postwar development of its heavily export-oriented industries to meet the requirements of the Soviet market and has become second only to East Germany as a supplier of machinery and equipment to the USSR. Whereas Czechoslovakia supplies in the aggregate nearly one-fifth of the total Soviet imports of machinery and equipment, it supplies a substantially larger share of selected commodities. Thus in recent years (1956-60), Czechoslovakia has provided one-third of Soviet imports of metalcutting machine tools; nearly one-half of Soviet imports of power-generating equipment, including all of the mobile steam-power units especially designed for use in the Soviet Far East, and about two-thirds of all diesel-electric powerplants; about one-half of Soviet imports of sugar refinery equipment; nearly one-third of all rolling mill equipment; most of the mainline electric locomotives; and almost all of the heavy-duty trucks. The principal Czechoslovak exports of machinery and equipment to the USSR in recent years, reflecting the contribution of Czechoslovak industries to Soviet economic development, are shown in Table 9.*

* Table 9 follows on p. 28.

Table 9

Selected Soviet Imports from Czechoslovakia
1956-60

Commodity	Soviet Imports from Czechoslovakia 1956-60 (Million Current US $)	Czechoslovak Share in Total Soviet Imports 1960 (Percent)
Total imports from Czechoslovakia	2,500	11
Of which:		
Metalcutting machine tools	70	31
Forging and pressing equipment	30	18
Power-generating equipment	160	46
Electrical engineering equipment	20	13
Equipment for the food industry	90	24
Chemical equipment	70	16
Rolling mill equipment	50	28
Electric locomotives	60	46
Automotive equipment	100	56

CEMA specialization assignments -- generally according official recognition to the traditional specialized production capabilities of the Soviet Bloc countries -- are expected to strengthen further the role of Czechoslovakia as a major supplier of heavy industrial equipment to the USSR (second in importance only to East Germany). Although sharply reducing the wide assortment of machinery and equipment previously produced, Czechoslovak industry is to concentrate on production of advanced types of metalcutting machine tools (including semiautomatic and automatic types of lathes, milling machines, horizontal and vertical boring mills, and grinding machines); certain types of chemical equipment; metallurgical equipment; mainline diesel-electric and electric locomotives; heavy-duty trucks; specialized transportation equipment; certain types of electrical and power-generating equipment; textile machinery; equipment for the shoe and leather-processing industry; and specialized complete plant installations. 25/

These specialization assignments generally are reflected in the pattern of planned Czechoslovak deliveries to the USSR during 1961-65, which are expected to increase by about 65 percent compared with the total for 1956-60. At the same time, deliveries of machinery and equipment are expected to increase by more than 160 percent, totaling perhaps as much as $2,500 million compared with $950 million during the earlier period, reflecting the scheduled increase in the share of machinery and equipment in the total Czechoslovak deliveries to the USSR from 45 percent in 1960 to more than 60 percent in 1965. 26/

Particularly significant are the planned increases in Czechoslovak exports of chemical equipment, railroad equipment, machine tools, and metallurgical equipment. Although Czechoslovak industry traditionally has produced equipment of high quality in these fields, CEMA specialization assignments may account in part for the sizable increases scheduled in Czechoslovak production and deliveries to the USSR. 27/ Combined deliveries of this type of equipment are scheduled to exceed $1,000 million during 1961-65, more than four times the level of the preceding period (see Table 10*). Also, these deliveries will account for more than 40 percent of the total deliveries of machinery and equipment to the USSR, a substantially larger share than the 25 percent during the earlier period.

Equipment for the chemicals and synthetics industries will be perhaps the most important Czechoslovak export to the USSR. Deliveries during 1961-65 are scheduled to reach about $400 million (nearly four times the total of deliveries during the preceding 5-year period) as Czechoslovak production, slated for priority expansion under the Czechoslovak Five Year Plan, becomes the principal Satellite source of equipment and installations for the Soviet chemical industry.** Czechoslovak metallurgical equipment, primarily rolling mills and associated finishing equipment, is essential for the achievement of Soviet plans for volume and product mix of the iron and steel industry. Deliveries are scheduled to increase almost threefold, totaling perhaps as much as $150 million and representing about 40 percent of the total planned Czechoslovak output. 29/ Metalcutting machine tools,

* Table 10 follows on p. 30.

** According to Pravda (16 October 1958), Czechoslovakia agreed to deliver to the USSR during 1959-65 chemical equipment valued at $462.5 million, including equipment made of carbon steel, high-pressure equipment for the manufacture of synthetic fibers, refrigeration equipment, compressors, machinery for the manufacture of plastic articles, and equipment for the rubber industry. To the extent that they can be identified, deliveries of these types of equipment during 1959-60 were valued at $65.3 million, presumably leaving deliveries of approximately $400 million for 1961-65. 28/

Table 10

Selected Czechoslovak Exports to the USSR
1956-60 and Planned for 1961-65

Commodity	Unit	1956-60	1961-65 Plan	Increase (Percent)
Machinery and equipment	Million current US $	950	2,500	163
Of which:				
Metalcutting machine tools	Million current US $	70	220	214
Equipment for the chemical and synthetics industries	Million current US $	110	400	264
Rolling mill equipment	Million metric tons	0.04	0.12	200
Diesel locomotives	Units	91	760	735
Electric locomotives	Units	104	623	499
Cable	Thousand kilometers	23	25	9
Sugar	Million metric tons	0.52	0.72	38
Leather footwear	Million pairs	51	63	24

especially automated and semiautomated types designed for installation in small and medium-size workshops, also are scheduled for substantially increased deliveries. With shipments expected to increase in value more than two times, reaching a level reported at $220 million, Czechoslovakia will remain second only to East Germany as a supplier of the imports required to effect the planned modernization of the Soviet machine tool inventory. 30/ Main-line diesel and electric locomotives also will become a major Soviet import from Czechoslovakia. Planned deliveries include 760 diesel and 623 electric locomotives, about eight and six times, respectively, the deliveries made during the preceding 5-year period. 31/

In addition to the above, Czechoslovakia will continue to export large (although unspecified) quantities of machinery and equipment for cement plants and sugar refineries; also ships and marine equipment, largely passenger boats and barges for river traffic, suction dredges, and ships' diesels; power generating equipment, including rail-mounted mobile powerplants; and specialized transport equipment, especially heavy-duty dump trucks and refrigerator trucks. 32/ Exports of foodstuffs and manufactured consumer goods are to be increased slightly, possibly reflecting both the lower priority accorded investments in agriculture and light industry in Czechoslovak plans and the increasing domestic requirements for products of agriculture and light industry. Available quantitative information on planned Czechoslovak exports to the USSR during 1961-65 is compared with actual exports during 1956-60 in Table 10.*

The emerging pattern of Soviet-Czechoslovak trade clearly reflects the fact that Czechoslovak industrial development, within the CEMA program for Bloc-wide industrialization, is being even more closely oriented toward the requirements of the USSR. Closer integration of Czechoslovak industries with those of the USSR also has been the avowed purpose of the Soviet-Czechoslovak Committee for Economic Cooperation, which was formed in the late 1950's to promote the more rational exploitation of industrial capabilities in the two countries. Incorporating the recommendations both of CEMA and of the bilateral Committee for Economic Cooperation, the current Czechoslovak Five Year Plan specifies the priority allocation of investment resources to the further rapid expansion of heavy machine building industries, notably those producing chemical and metallurgical equipment, railroad locomotives, and machine tools. At the same time, Czechoslovak export commitments during 1961-65, as previously indicated, provide for a more than threefold increase above 1956-60 in the delivery of such equipment to the USSR. 33/

* P. 30, above.

The significant expansion scheduled in Czechoslovak exports of heavy machinery and equipment to the USSR (and to a lesser extent to the other CEMA countries) should provide Czechoslovakia with the extensive markets required to obtain economies of scale and to expand research and development in its heavy industry, traditionally the bellwether of its economic growth. Given the politico-economic status quo in Eastern Europe, Soviet-Czechoslovak trade as currently scheduled should promote more rational industrialization programs in the two countries and provide for better utilization of available plant and resources.

C. Poland

Poland continues to be the third ranking trading partner of the USSR among the European Satellite countries, although its share in the total Soviet foreign trade declined from about 11 percent in 1955 to 8 percent in 1960. The level of Soviet-Polish trade fluctuated considerably during 1956-58 while the Polish leadership, intent on pursuing more independent domestic and foreign economic policies, made a determined effort to expand Polish trade with the West. In spite of extensive Western credits, however, trade with the Free World failed to develop as anticipated -- primarily because of Poland's inability to generate the necessary volume of exports acceptable to the industrial West -- and the Gomulka regime decided to shift course again and redirect a significant portion of Polish trade back to the Soviet Bloc. This decision was clearly reflected in Soviet-Polish trade, which began to show a steady growth in 1959 and which reached a level of $880 million in 1960, 38 percent above the level of $640 million in 1956. Preliminary data for 1961 show a further substantial increase for Soviet-Polish trade to a level of about $975 million. 34/

Long-range prospects, based on the Five Year Soviet-Polish Trade Agreement (1961-65), signed in March 1960 after prolonged negotiations, are for continued rapid growth in trade in support of mutually coordinated long-term economic plans. Aggregate turnover during the 5-year period, according to the agreement, is planned to exceed $5,500 million, representing an increase of 50 percent above the actual trade during 1956-60, with the level of trade in 1965 scheduled to be more than $1,250 million and exceeding the level in 1960 by more than 40 percent. 35/

The volume of Soviet-Polish trade stipulated in the long-term trade agreement is expected to be increased substantially in the course of the implementation of annual trade protocols.* Moreover, a

* The trade increases stipulated in Soviet-Polish trade protocols for 1961 and 1962 -- 12 percent and [footnote continued on p. 33]

supplementary long-term trade agreement for 1962-67, signed in May 1961, provides for an increased level of trade including additional Soviet exports of machinery and equipment, with a large part of deliveries to be effected by 1965. 37/ With these various factors being taken into account, it may reasonably be assumed that Soviet-Polish trade during 1961-65 will reach, if not exceed, a level of at least $6,000 million and that the mutual turnover in 1965 will reach a level of $1,400 million. On this basis, Soviet-Polish trade through 1965 will grow at an average annual rate of about 10 percent, a figure substantially in excess of the average annual rate of growth of 7 percent estimated for the total Soviet and the total Polish foreign trade. Whereas this growth differential is not sufficient to increase significantly the Polish share in the total foreign trade of the USSR beyond the current level of 8 percent, it will increase the Soviet share in the total foreign trade of Poland from 30 percent in 1960 to 34 percent in 1965.

1. Soviet Exports

The postwar industrialization program of Poland is largely predicated on the USSR as the principal supplier of key raw materials and the principal market for industrial exports. Soviet deliveries of iron ore, manganese, and various alloying materials as well as of entire iron and steel plants made the establishment and expansion of Polish heavy industry possible, and substantial Soviet orders for engineering products (primarily ships and railroad equipment) made its operation feasible. Whereas Polish dependence on Soviet machinery and equipment has shown a marked decline in recent years, dependence on Soviet raw materials has continued in spite of efforts to develop alternate sources of supply. Thus, according to the Polish newspaper Trybuna ludu, the USSR in 1960 supplied 100 percent of Polish imports of crude oil, 75 percent of petroleum products, 78 percent of iron ore, 90 percent of nickel, 74 percent of chromium, 68 percent of zinc, 90 percent of apatite, 73 percent of timber, and 65 percent of cotton. 38/

Under the extensive industrialization program scheduled in the current Five Year Plan, Polish dependence on imports of raw materials from the USSR is expected to increase further. Thus, according to the Polish economic weekly Zycie gospodarcze, the implementation of the current Polish Five Year Plan will require an increase of 36 percent in imports of raw materials, production materials, and fuels (compared with import requirements during 1956-60), and the concurrent Five Year Trade Agreement with the USSR provides for an increase of 52 percent in such imports. 39/ The sizable increases scheduled in Soviet deliveries

---

18 percent, respectively -- exceed substantially the average annual rate of growth implicit in the long-term trade agreement. 36/

of key raw materials and fuels are shown in Table 11, in which planned Soviet exports to Poland during 1961-65 are compared with actual exports during 1956-60.

Table 11

Selected Soviet Exports to Poland
1956-60 and Planned for 1961-65

Commodity	Unit	1956-60	1961-65 Plan	Increase (Percent)
Crude oil	Million metric tons	3.07	8.50	177
Petroleum products	Million metric tons	4.46	7.70	73
Iron ore	Million metric tons	20.80	35.50	71
Pig iron	Million metric tons	0.06	0.50	733
Apatite concentrate	Million metric tons	1.00	1.67	67
Timber	Million cubic meters	0.54	1.00	85

Soviet deliveries of machinery and equipment, the principal source of Polish imports of engineering products, also are scheduled to increase substantially during 1961-65. The basic quotas established in the long-term trade agreement have recently been expanded further within the framework of the Soviet-Polish agreement of May 1961 on broadened economic and technical cooperation. Of particular importance are substantial Soviet deliveries of metallurgical equipment, which will permit the rapid expansion of Polish ironmaking and steelmaking capacity required to support the growth projected for Polish engineering industries and for Polish exports of engineering products to the USSR. The USSR also is scheduled to deliver complete plant installations for a contact coking plant, for two petroleum cracking plants, for a rolling mill for production of aluminum and aluminum alloy sheets, and for two plants producing building materials. In addition, the USSR will supply several turbogenerators rated at 200 megawatts each, the largest and most up-to-date power-generating equipment to be installed in Poland during the current plan period. Other Soviet deliveries of equipment include petroleum drilling rigs; geological research instruments; machine tools; tractors and agricultural implements; and machinery for the textile, chemical, and food industries. 40/ The share of machinery and equipment in Soviet exports to Poland is expected to increase from slightly more than 25 percent of the total in 1960 to more than one-third of the total by 1965.

2. Polish Exports

Heavily dependent on Soviet deliveries of raw materials, machinery, and equipment, Poland's postwar industrialization program was dictated not only by the requirements of the domestic economy but also by those of the USSR. The Soviet orientation of Polish industry is especially pronounced in its transportation equipment sector, which was built primarily to supply Soviet requirements and continues to rely heavily on Soviet orders. Thus in 1960 the USSR accounted for 72 percent of the total Polish exports of ships, 63 percent of the exports of railroad freight cars, and 88 percent of the exports of railroad passenger cars. 41/ Polish deliveries of engineering products increased by two-thirds during 1956-60 but comprised only about 30 percent of the total Soviet imports from Poland in 1960. Raw materials and semifabricates -- primarily coal (including large quantities delivered to East Germany on Soviet account) and rolled ferrous metals -- comprised approximately one-third of imports, while agricultural products and the rapidly increasing consumer manufactures accounted for the remainder.

Although small in comparison with aggregate Soviet imports, representing only about 7 percent of the total, Polish deliveries supply significant shares of Soviet imports of selected commodities. In 1960, Poland was the sole exporter of railroad freight cars to the USSR and also provided approximately one-fourth of railroad passenger cars. Polish shipyards delivered 16 percent by value of ships and marine equipment imported by the USSR, and the machine building industry delivered 15 percent of the sugar-refining equipment. The principal Soviet imports from Poland during recent years are shown in Table 12.*

The substantial expansion and diversification of Polish industries scheduled during the current Five Year Plan will support a rapid increase in Polish deliveries of machinery and equipment to the USSR. Under the terms of the basic Soviet-Polish Trade Agreement (1961-65) and the supplementary long-term agreement (1962-67) since negotiated, Poland is committed to deliver machinery and equipment valued at $1,250 million to the USSR during 1961-65, more than 2.5 times the value of deliveries during 1956-60. Although a considerable part of these deliveries will be comprised of traditional exports, notably ships and railroad rolling stock, for which CEMA specialization assignments to Poland have merely confirmed already existing production patterns, the influence of the CEMA program on the Polish production profile is reflected in the broader assortment of engineering products included in the export schedule. Thus, in conformance

* Table 12 follows on p. 36.

Table 12

Selected Soviet Imports from Poland
1956-60

Commodity	Soviet Imports from Poland 1956-60 (Million Current US $)	Polish Share in Total Soviet Imports 1960 (Percent)
Total imports from Poland	1,500	7
Of which:		
Machinery and equipment	480	7
Of which:		
Ships and marine equipment	210	16
Railroad freight cars	80	100
Railroad passenger cars	100	24
Sugar refineries	20	15
Coal	370	96
Coke	80	100
Rolling mill products and pipe	80	6
Zinc and zinc products	60	70
Calcined soda	10	53
Sugar	30	45

with CEMA specialization assignments, Polish exports to the USSR are to include 15 sugar refineries; several plants for the manufacture of bone glue; 10 plants for the manufacture of fiber boards; plants for production of yeast; and machinery and equipment for the manufacture of paper and paper products, machine tools, and roadbuilding machinery as well as certain types of electronics and telecommunications equipment, electrical equipment, and surveying instruments. 42/

The planned growth in Polish exports to the USSR is shown in Table 13,* in which Polish deliveries scheduled for 1961-65 are

* Table 13 follows on p. 37.

Table 13

Selected Polish Exports to the USSR
1956-60 and Planned for 1961-65

Commodity	Unit	1956-60	1961-65 Plan	Increase or Decrease (Percent)
Machinery and equipment	Million current US $	480	1,250	160
Of which:				
Ships (oceangoing)	Million deadweight tons	0.45	0.83	84
Railroad freight cars	Thousand units	11.50	15.00	31
Railroad tank cars	Thousand units	0	5.90	N.A.
Railroad passenger cars	Thousand units	2.31	1.75	-24
Coal	Million metric tons	21.53	23.80	11
Coke	Million metric tons	2.94	3.00	2
Rolling mill products	Million metric tons	0.30	0.56	87
Zinc alloys and sheeting	Million metric tons	0.22	0.30	36
Calcined soda	Million metric tons	0.28	0.60	114

compared with actual deliveries during 1956-60. In addition to those shown in Table 13, Polish exports to the USSR will include increasing quantities of agricultural and food products as well as manufactured consumer goods such as wool, cotton, and linen textiles, clothing, shoes, and miscellaneous consumer durables.

Planned Polish deliveries to the USSR during 1961-65 reflect a number of changes in the export pattern that, on the whole, appear to correspond to planned economic development. In line with Poland's growing industrial capabilities, the share of machinery and equipment in the total exports is to be increased. [redacted] deliveries of investment goods (primarily machinery and equipment) to the USSR during the current Five Year Plan period will be more than 160 percent above similar deliveries during 1956-60, and their share in the total Polish exports to the USSR will increase from 40 percent in 1960 to more than 57 percent in 1965. 43/ The importance of this shift in the export pattern is enhanced further by the fact that, within the machinery and equipment category, exports will focus increasingly on deliveries of more complex and technically advanced types and models which, requiring a larger input of skilled labor per unit of output, generally possess a higher value per unit.

50X1
50X1

Exports of industrial consumer goods, which have become sizable only in recent years, also are to increase by more than 100 percent compared with 1956-60. As in the case of machinery and equipment, the export assortment is scheduled to become more diversified, featuring a range of consumer durables not previously exported in quantity. 44/

The increase in the share of machinery and consumer manufactures in the total Polish exports to the USSR appears to be primarily at the expense of coal,* which during 1956-60 accounted for more than 25 percent in value of the total Polish exports to the USSR. According to the quota stipulated in the long-term trade agreement, exports of coal during 1961-65 will be only 11 percent above the volume reached during 1956-60 and, as a result, will decline to less than 15 percent in value of the total exports.**

The changing pattern of Polish exports to the USSR, characterized by an enlarged share of capital equipment as well as industrial and consumer manufactures, appears to have considerable advantages for the development of the Polish economy. In providing a ready

* Although carried in Polish and Soviet statistics as a Polish export to the USSR, this coal is primarily exported to East Germany on Soviet account.

** Based on 1960 prices.

market for increased and diversified Polish deliveries of engineering and industrial products, which in many cases are not readily marketable in the West, the USSR probably affords Poland the most effective and perhaps the only means for rapidly generating the high volume of exports required to repay past Soviet credits and to support the higher level of imports necessary to implement Poland's long-term economic plan.

Although Poland may have a greater comparative advantage in production of coal than in the manufacture of most industrial products, coal does not appear to provide an alternative to manufactures as the basis for greatly increased exports. In the absence of sizable reallocations of capital investments and labor, which would require extensive revisions in plans for diversified industrial growth of the Polish economy, output of coal could not be increased substantially in the short run. The future market for fuels, moreover, is so uncertain that additional investments in the coal industry would face a greater risk than those in the industries selected.

The USSR, of course, also will derive benefits from this new pattern of Polish exports, although, inasmuch as the Soviet economy is essentially self-sufficient and therefore far less dependent on foreign trade than is Poland's, the economic impact of these exports will be largely marginal. Even at the expanded volume now scheduled, Polish deliveries of industrial products will continue to be small relative to aggregate Soviet import requirements for all but a few selected commodities -- for example, maritime and rail transport equipment. Nevertheless, the expansion and diversification of Polish industrial capabilities provide an alternate source for an increasing range of manufactured goods and thus should afford Soviet planners an added measure of flexibility, enabling them better to allocate domestic resources. More important in the long run, however, appears to be the fact that the evolving pattern of trade and economic cooperation is identifying increasingly Poland's economic growth with that of the USSR.

D. Bulgaria

Bulgaria, the fourth ranking trading partner of the USSR among the European Satellites, accounted for 6 percent of the total Soviet foreign trade in 1960. Soviet-Bulgarian trade has developed very rapidly in recent years, increasing by more than 150 percent from 1955 to 1960, from $250 million to $630 million. Soviet exports increased by 154 percent during this period, from about $130 million to $330 million, while imports increased by 150 percent, from $120 million to about $300 million. 45/

Soviet-Bulgarian trade will continue to grow rapidly during the next few years, although the exceptionally high rate of growth achieved during 1956-60 (more than 25 percent per year) will not be maintained. The long-term Soviet-Bulgarian trade agreement for 1961-65, signed in November 1959, provided for a total turnover of $3,250 million for the 5-year period, with reciprocal trade in 1965 set at $640 million, about 60 percent above the level in 1958. 46/ However, as a result of the substantially above-plan growth of trade during 1959 and 1960, which already in 1960 practically achieved the level of turnover initially planned for 1965,* a supplementary trade agreement for 1962-65 was signed in 1961 that raised the level of planned turnover during 1961-65 to nearly $3,800 million, more than 70 percent above the total achieved during the previous 5 years. 47/ With annual trade protocols providing for increases of 16 and 13 percent for 1961 and 1962, respectively, it is not unlikely that Soviet-Bulgarian trade will reach $1,000 million in 1965, nearly 60 percent above the annual level in 1960. 48/ At that, the Bulgarian share in the total Soviet foreign trade would remain at approximately its current level of 6 percent, whereas the Soviet share in the total Bulgarian foreign trade would show a slight increase from 53 percent in 1960 to 55 or 56 percent in 1965.

1. Soviet Exports

Soviet-Bulgarian trade has been one of the most important factors shaping the development of the Bulgarian economy in the post-war era. Soviet deliveries of capital equipment have provided the basis of Bulgaria's industrial development program and continue to play a decisive role in assisting the implementation of the industrial expansion and diversification scheduled in the current Bulgarian Five Year Plan (1961-65). Thus in 1959 the USSR reportedly supplied 58 percent of Bulgaria's imports of machinery and equipment, including 73 percent of imports of complete plant installations, so important to the industrialization of the Bulgarian economy, and nearly 100 percent of imports of steam and hydroelectric power generating plants.** 49/ The USSR also supplies most of the machinery and equipment required to mechanize Bulgarian agriculture (still the dominant sector of the Bulgarian economy), including (in 1959) more than 80 percent of the

* The actual turnover in 1960 was $630 million compared with the $640 million planned for 1965.

** The Soviet share of Bulgarian imports of machinery and equipment in 1960 is not known. Soviet deliveries of capital equipment increased 24 percent from 1959 to 1960, from $88 million to $109 million, and deliveries of complete plant installations increased 67 percent during this period, from $21 million to $35 million, representing 80 percent of Bulgarian imports in this category.

tractors as well as all grain combines and harvesters. 50/ In the aggregate, Soviet deliveries of machinery and equipment to Bulgaria increased by about 175 percent from less that $40 million in 1956 to nearly $110 million in 1960.

In addition to providing the major share of Bulgarian imports of investment goods, the USSR is the principal supplier of a number of key raw materials and semifabricates required by Bulgarian light and heavy industry. The Soviet share of the total Bulgarian imports of these commodities is approximately as follows: petroleum products, 85 percent in 1960; pig iron, 75 percent in 1960; ferroalloys, 95 percent in 1959; rolled ferrous metals, 53 percent in 1959; rubber, 60 percent in 1960; and cotton, 60 percent in 1960. 51/

Unlike Soviet long-term trade agreements with other Satellite countries, the Soviet-Bulgarian trade agreement for 1961-65 (since augmented by the supplementary trade agreement for 1962-65) provides no quantitative information on reciprocal commodity shipments. The announcement issued at the signing of the agreement simply stated: " ... The Soviet Union will considerably increase the deliveries of goods needed by the Bulgarian national economy, including industrial equipment, tractors, agricultural machinery, motor cars, ferrous and nonferrous metals, petrol products, cotton, fertilizers, blue vitriol, and other goods. Crude oil also will be supplied for the oil processing plant which will be constructed in Bulgaria." 52/

The Soviet intention to speed the further industrialization of the Bulgarian economy under the Fourth Five Year Plan is shown in the $160 million credit extended in 1960 to finance Soviet deliveries of metallurgical equipment to the Kremikovtsi Metallurgical Combine and power-generating equipment for the Maritsa-Vostok electric power station. 53/ (The relative magnitude of this industrial development credit is reflected in the fact that it is equivalent to 50 percent of the total Soviet deliveries of machinery and equipment to Bulgaria during 1956-60.) The Kremikovtsi combine is the key project in Bulgaria's plans for expanding and diversifying the productive capacity of the Bulgarian iron and steel industry, and Soviet deliveries are being counted on to provide a substantial share of over-all equipment requirements. Similarly the Maritsa-Vostok electric power station is the key project in Bulgarian plans for increasing electric power generating capacity as one of the requisites for continued economic growth. This plant also is to be outfitted primarily with Soviet equipment, and when it is completed (probably by 1967), it will have a generating capacity almost equaling that of all Bulgarian power stations combined in 1961.

2. Bulgarian Exports

The expansion and diversification of the Bulgarian economy, which has been greatly facilitated by increasing Soviet exports of capital equipment and essential raw materials, has enabled Bulgaria to increase substantially the volume and to broaden the commodity composition of its exports to the USSR. Reflecting the emphasis on industrial development, Bulgaria's still small machine building industries, which are highly oriented toward the Soviet market, increased their exports from $6 million in 1956 to nearly $50 million in 1960, thereby raising their share in the total exports from 4 percent to more than 16 percent. Electrical equipment, agricultural implements, automotive spare parts, and small merchant ships comprise the principal export commodities. Consumer goods industries also have achieved a substantial growth in exports. Comprising primarily readymade clothing and furniture, deliveries increased from $27 million in 1956 to nearly $80 million in 1960, raising their share in the total exports from 18 to 27 percent.

Among the more traditional Bulgarian exports, only foodstuffs maintained their previous share (approximately 30 percent), increasing in value from 1956 to 1960 from more than $40 million to nearly $90 million. Exports of raw tobacco, while remaining at a value of $25 million, declined in this period from 17 to 8 percent of the total exports, and exports of nonferrous ore concentrates declined from $32 million to $25 million, currently providing only 8 percent of the total exports compared with 21 percent in 1956.*

The communiqués on trade agreements referred to above, while announcing a substantially higher level of trade, provide no detailed information on planned Bulgarian exports to the USSR during 1961-65. 55/ Nevertheless, it appears clear from the general commodity listing included that the over-all pattern of exports will not differ essentially from that established in the recent past. Because of the increasing Bulgarian industrial capabilities (recognized in part by CEMA specialization assignments), it is probable that exports of machinery and equipment will continue to increase in value and perhaps also as a share of the total Bulgarian exports to the USSR. Aggregate industrial output in Bulgaria is scheduled to increase about 75 percent during the current Five Year Plan, and more rapid growth appears to be scheduled for machinery and equipment (for which Bulgaria has received CEMA specialization assignments and for which the necessary

* Data on the growth of Bulgarian exports to the USSR during 1956-60 and on the share of these exports in the total Soviet imports of the respective commodities are taken from or based on official Soviet foreign trade statistics. 54/

domestic raw materials base exists) -- for example, electric motors, transformers, storage batteries, electric cable cars (industrial), electric carts, automatic telephone switchboards, and certain types of ships. 56/ Most of these products are primarily for export, and the USSR, which has a large, unsatisfied demand for them, should continue to provide their principal market.

A further increase in the share of manufactured products in the total Bulgarian exports to the USSR also may result from additional deliveries of products of light industry and the food-processing industry. In conformance with CEMA specialization assignments (which here once again confirm traditional production patterns), Bulgaria has scheduled a substantial increase in horticultural output and plans to double its exports of canned vegetables while increasing its exports of canned fruit by 50 percent above 1960. 57/ The USSR has been the principal market for these products in the past, and contracts for the current 5-year period reportedly call for large increases in Bulgarian deliveries. No information is available on Bulgarian plans for increasing production of readymade clothing and furniture, two of the major sectors of Bulgarian light industry. Inasmuch as exports of these products to the USSR increased very rapidly during the past few years (deliveries of clothing increased five times and those of furniture three times during 1956-60), it is not unlikely that, pursuant also to Soviet goals for increasing the availability of consumer manufactures, purchases from Bulgaria will be increased further.

In the absence of quantitative information on the composition of planned Soviet-Bulgarian trade during 1961-65 and also on production goals of the Bulgarian current Five Year Plan, it is not possible to draw any detailed conclusions on the likely impact of this trade on the development of the Bulgarian and Soviet economies. (The impact on the latter is not likely to be significant in any case.) It appears certain, however, that Bulgaria's future economic and particularly its industrial growth will continue to depend to a great extent on the growth of its trade with the USSR. Recognizing this, Bulgarian leaders apparently are content to follow the Soviet lead in political as well as economic matters.

E. Hungary

Hungary, the fifth ranking trading partner of the USSR among the European Satellites, currently accounts for about 5 percent of the total Soviet foreign trade. In the wake of the Hungarian revolt of October 1956 the USSR pledged itself to extend large-scale assistance to Hungary in the restoration of its economy and, beyond that, to supply increasing quantities of raw materials, fuels, machinery, and equipment necessary for the expansion of Hungarian industry. As a

result, Soviet-Hungarian trade, which actually had declined during 1953-56, began to increase very rapidly, reaching a turnover of $560 million in 1960, 124 percent above the level achieved in 1956, which for all practical purposes was the last year before the revolt. Much of this growth was due to the sharp increase in Soviet exports, which, pursuant to the pledge made in 1956, rose 138 percent from 1956 to 1960, from $130 million to $310 million. 58/ Soviet imports from Hungary during the same period increased somewhat less rapidly, by 108 percent, from $120 million in 1956 to $250 million in 1960. Preliminary data for 1961 indicate that although the volume of trade stipulated in the annual protocol ($625 million) was not quite achieved, the Soviet-Hungarian trade turnover reached approximately $610 million, 9 percent above the level in 1960. 59/

Long-range prospects for Soviet-Hungarian trade during 1961-65 are for continued rapid expansion, although the exceptionally high rate of growth prevailing during 1956-60 (which reversed the earlier downward trend in this trade) will not be maintained. According to the provisions of the long-term trade agreement signed on 6 May 1960, Soviet-Hungarian trade during 1961-65 will exceed $3,000 million, an increase of about 50 percent above such trade during 1956-60. 60/ This volume subsequently was increased as a result of a supplementary long-term trade agreement (1962-65) signed in August 1961, which calls for additional reciprocal deliveries that should bring total Soviet-Hungarian trade during 1961-65 to a level of approximately $4,000 million, doubling the volume of trade generated in the earlier 5-year period.* 61/ In line with these trade plans the Soviet-Hungarian trade turnover in 1965 is estimated to reach about $900 million, more than 60 percent above the level in 1960, representing an annual average rate of growth of 10 percent. Inasmuch as this projected rate of growth exceeds the rates apparently planned for the total trade of both the USSR and Hungary, the share of mutual trade in the total trade of these countries is expected to rise -- the Hungarian share of Soviet trade from 5 percent in 1960 to 6 percent in 1965 and, more significantly, the Soviet share in Hungarian trade from 29 percent in 1960 to 36 percent in 1965. 62/

1. Soviet Exports

As Hungary's most important trading partner and source of long-term credits, the USSR has exerted a far-reaching influence on Hungarian economic development. Soviet exports have provided the major share of Hungarian import requirements of key raw materials as

* The effects of this supplementary trade agreement apparently are already reflected in the 1962 Soviet-Hungarian protocol, which calls for a 14-percent increase in trade above 1961.

well as substantial quantities of machinery and equipment required for industrial expansion. At the same time, the USSR is the principal market for Hungary's diversifying industries, currently accounting for more than 50 percent of Hungarian exports of machinery and equipment. 63/ Acknowledging Hungary's dependence on Soviet deliveries of key raw materials, [redacted] the share of the USSR in selected Hungarian imports for 1961 as follows: crude oil, 93 percent; iron ore, 95 percent; ferroalloys, 98 percent; timber, 83 percent; and cotton, 74 percent. 64/ 50X1

Under the requirements of the Hungarian Five Year Plan (1961-65), the USSR is committed to supply Hungary significantly increased quantities of raw materials as well as machinery and equipment for key industrial expansion projects. Although the quotas initially agreed on in the long-term trade agreement of 1960 reportedly have since been increased (according to the terms of the supplemental trade agreement signed in 1961), they are given in Table 14* as presumably indicative of minimum Soviet deliveries.

The very significant increase in planned Soviet deliveries of engineering products will supply a substantial part of the machinery and equipment required to implement key targets of Hungary's industrial expansion and diversification program. Included is the rolling mill equipment for the hot and cold strip mills being installed at the Danube Iron Works at Dunaujvaros (formerly Sztalinvaros), which is the most important project in Hungary's plan to increase sharply the finishing capacity of its iron and steel industry. 65/ Large quantities of chemical equipment, notably complete plants for production of polyethylene, methanol, and polyvinylchloride, also are listed. [redacted] Soviet deliveries will supply 70 percent of the machinery and equipment required to implement current plans for increasing production of the Hungarian chemical and synthetics industries. 66/ The USSR also will supply complex machinery and equipment to improve and modernize Hungary's machine tool and precision instruments industries as well as oil drilling and transporting machinery, tractors, roadbuilding machinery, and agricultural machines. 67/ As a result of the large increases in deliveries planned, the share of machinery and equipment in the total Soviet exports to Hungary in 1965 is expected to increase to nearly one-third (compared with not quite 25 percent in 1960), further strengthening the Soviet position as the principal foreign supplier of investment goods for Hungarian industry. 50X1 50X1

2. Hungarian Exports

The direction of postwar industrial development in Hungary was dictated to a considerable extent by the requirements of the USSR,

* Table 14 follows on p. 46.

Table 14

Selected Soviet Exports to Hungary
1956-60 and Planned for 1961-65

Commodity	Unit	1956-60	1961-65 Plan	Increase or Decrease (Percent)
Machinery and equipment	Million current US $	190	500	163
Coal	Million metric tons	1.72	1.00	-42 a/
Coke	Million metric tons	2.69	2.80	4
Crude oil	Million metric tons	4.91	6.60	34
Iron ore	Million metric tons	7.11	9.04	27
Apatite concentrate	Million metric tons	0.52	0.80	54
Timber	Million cubic meters	4.36	5.73	31
Cotton	Million metric tons	0.16	0.19	19

a. The volume of coal shipments during 1956-60 was exceptionally large as a result of emergency deliveries made in 1957 in the amount of 1.2 million tons. Discounting these emergency deliveries, coal shipments in 1961-65 are to double those of the previous period.

and the Soviet market continues to take more than 50 percent of the total Hungarian exports of machinery and equipment. Soviet orders insure a solid basis for some of the more important branches of the engineering industry, such as the shipbuilding, machine tool, rolling stock, precision instrument, and electrotechnical industries. Thus, about two-thirds of the output of Hungarian shipyards, 80 percent of railroad rolling stock, 25 percent of machine tools, 17 percent of buses and undercarriages, and 15 percent of telecommunications equipment are being delivered to the USSR. 68/ 50X1

Accounting for less than 5 percent of the total Soviet imports, Hungarian deliveries nevertheless have provided a substantially larger share of Soviet imports of selected types of machinery and equipment. Thus Hungarian industry in 1960 supplied almost one-third of all cranes imported by the USSR; one-fourth of the industrial refrigeration equipment; more than 20 percent of the equipment for the food industry; and more than 10 percent of the railroad and automotive equipment, including 75 percent of all buses. At the same time, the well-developed Hungarian drug industry supplied almost 50 percent of Soviet imports of pharmaceuticals. 69/ The over-all composition of Hungarian exports to the USSR during 1956-60 is shown in Table 15.*

The lack of precise data prevents a detailed comparison of Hungarian exports to the USSR scheduled for 1961-65 with actual exports during 1956-60. Official announcements, however, indicate that the over-all pattern of exports will remain essentially unchanged, with machinery and equipment again accounting for the major share. No information has been released on the total value of planned shipments of machinery and equipment, but a conservative estimate places it at about $1,000 million -- that is, double the value during 1956-60.

Planned exports of machinery and equipment generally appear to reflect the priorities of Hungary's long-term economic plan, which (reportedly pursuant to CEMA recommendations) is shifting the center of gravity within the engineering industry to production of telecommunications equipment, precision instruments, diesel-electric trains and engines, and food-processing and chemical equipment. 70/ Apparently scheduled for the largest increases are deliveries of the telecommunications equipment and precision instruments industries. Given Hungary's most important CEMA specialization assignments, these industries are slated for the highest rates of growth of all sectors of the Hungarian engineering industry. 71/ The long-term Soviet-Hungarian trade agreement established delivery quotas of approximately $160 million for telecommunications equipment and $40 million for precision

* Table 15 follows on p. 48.

Table 15

Selected Hungarian Exports to the USSR
1956-60

Commodity	Total Exports 1956-60 (Million Current US $)	Percent of Total Exports
Total exports to the USSR	800	100
Of which:		
Machinery and equipment	500	62
Of which:		
Machine tools	30	
Ships and marine equipment	90	
Hoisting and conveying equipment	50	
Equipment for the food industry	60	
Industrial refrigeration equipment	20	
Railroad rolling stock	100	
Automotive equipment	40	
Manufactured consumer goods	150	19
Pharmaceuticals	30	4

instruments, and [redacted] the value of these deliveries in 1965 will be 10 times the value in 1958.* As a result, the share of telecommunications equipment and precision instruments in the total Hungarian deliveries of engineering products to the USSR should increase from what was probably no more than 5 percent during 1956-60 to about 20 percent during 1961-65. 50X1

Corresponding to the planned expansion in Hungarian production, exports of food-processing and chemical equipment also are scheduled for sizable increases, with basic delivery quotas for 1961-65 being set at about $160 million and $40 million, respectively, compared with actual deliveries of $60 million and $10 million during the previous 5-year period. No announcements have been made on planned over-all shipments of railroad equipment during 1961-65. Their value also is expected to increase substantially, however, with the addition of 193 complete diesel trains, produced under CEMA specialization assignments, to traditional exports of passenger coaches.

Official announcements on planned exports of machine tools, cranes, ships, and automotive equipment have been rather uninformative. Such exports accounted for more than 40 percent of the total Hungarian exports of engineering products to the USSR during 1956-60 but are expected to decline somewhat in their share of the total during 1961-65. A basic quota of 5,500 metalcutting machine tools has been set, which suggests average annual exports somewhat above those during 1956-60 but substantially below annual exports in 1959 and 1960. With the increasing emphasis on the delivery of modern, high-precision tools designed for toolroom use, the over-all value of these deliveries is expected to increase. A combined delivery quota has been set at 360, and deliveries of portal and floating cranes during 1961-65 should about equal actual deliveries during 1956-60. Similarly, planned exports of 122 oceangoing and river vessels during 1961-65 should maintain the level of deliveries during 1956-60. This conclusion is supported by the fact that the Hungarian shipbuilding industry, almost exclusively producing for the Soviet market, is not scheduled for expansion during the current plan period. 73/ No information is available on planned exports of automotive equipment, although presumably there will be continuing deliveries of buses, for which Hungary holds a CEMA specialization assignment.

* Data on planned Hungarian exports to the USSR during 1961-65 and comparisons of such exports with those made during 1956-60 are based on Soviet and Hungarian statements issued at the signing of the Soviet-Hungarian Five Year Trade Agreement and on official Soviet foreign trade statistics. 72/

Exports of manufactured consumer goods also are scheduled to grow substantially during 1961-65, although here again available information is relatively sparse. Delivery quotas have been announced for cotton textiles, 122 million meters compared with 66 million meters delivered during 1956-60, and for clothing and knitwear, $70 million compared with almost $50 million during 1956-60. No information is available on planned shipments of pharmaceuticals, although in view of the fact that the industry is expanding and that exports in recent years have increased rapidly, deliveries during 1961-65 are expected to show a sizable increase above those in the previous 5-year period.

The evolving pattern of Soviet-Hungarian trade appears to offer significant advantages to the economies of both countries. Substantially assisted by Soviet deliveries of raw materials and industrial installations as well as by expanding Soviet markets, Hungary appears to be able to develop such of its industries as are best suited to its material and labor resources. In view of the fact that Hungary possesses few raw material resources other than bauxite, the planned expansion of industries that generally are characterized by a high ratio of labor to material inputs permits the country to make better use of its extensive reservoir of skilled labor and should enable it to increase considerably the unit value of exports, generally increasing the contribution of foreign trade to the development of the Hungarian economy.

The economic advantages to the USSR of this evolving pattern of trade with Hungary again reside primarily in the fact that imports provide specialized types of machinery and equipment that frequently better meet specific Soviet requirements than domestically produced general-purpose equipment. Where the domestic requirement for such specialized equipment is not sufficiently large to warrant the investments necessary for its production, the availability of an assured source of supply in a friendly country is of considerable advantage to the USSR because in effect it broadens the production experience and plant capacity on which Soviet planners can rely in drafting their over-all production programs. This advantage will be increased to the extent that CEMA specialization assignments are effective in permitting the selected industries not only to expand production sufficiently to realize the economies of scale but also to undertake the extensive research and development efforts required to make continuing qualitative and technological improvements. More important than the immediate economic advantages to the USSR appears to be the longer run consideration that the evolving pattern of Soviet-Hungarian trade, in providing ample scope for Hungarian economic growth, predisposes Hungary to seek close economic ties with the USSR and the other CEMA countries.

F. Rumania

Rumania, currently the sixth ranking trading partner of the USSR among the European Satellites, accounts for about 5 percent of the total Soviet foreign trade. It is interesting to note that whereas Soviet trade with the other Satellite countries increased rapidly during 1956-60, trade with Rumania remained almost at a standstill.* The turnover in 1960 reached a level of $540 million, only about 12 percent above the level of $480 million in 1955, and this modest growth was entirely recorded in 1960, the first year of the current Rumanian Six Year Plan. However, inasmuch as aggregate Rumanian foreign trade in 1960 increased by more than 30 percent (including an increase of 40 percent in trade with the other Satellite countries and 75 percent in trade with the West), the Soviet share in this trade, which had long been close to 50 percent, declined to 40 percent. 74/

Although currently overshadowed by the significant increases in Rumanian trade with the Satellites and with the West, Soviet-Rumanian trade during 1961-65 is expected to show substantial growth. The long-term Soviet-Rumanian Trade Agreement (1961-65) signed in November 1960, almost a year after the inception of Rumania's Six Year Plan, envisages a turnover of $3,250 million, which is approximately 35 percent above the actual trade during 1956-60. 75/ As in the case of Soviet long-term trade agreements with the other Satellite countries, this appears to be a minimum level of trade that should be exceeded substantially in the course of implementation of annual trade protocols. Trade in 1961 reached a level of approximately $610 million, 13 percent above the level in 1960, and the recently signed protocol for 1962 calls for a further 10-percent increase. 76/ Taking into account these "above long-term agreement" increments in annual protocols, the aggregate Soviet-Rumanian trade during 1961-65

* The reason for this situation appears to be in part the fact that, unlike the other Satellites, Rumania has an extensive and well-diversified resources base and therefore in the past generally has been less dependent on foreign trade to generate the material requisites for economic and industrial growth. Of relevance also is the fact that, particularly since the inception of its current Six Year Plan (1960-65), Rumania has sought to lessen its still substantial dependence on the USSR by significantly increasing its trade with the other Satellite countries and with the industrial West. Certain of the equipment requirements of current industrial plan targets -- notably in the metallurgical, chemical, petrochemical, plastics, and rubber industries -- made such a partial reorientation of trade mandatory, as Soviet capabilities to supply the necessary plant installations are severely circumscribed by greatly increased domestic requirements.

may be expected to reach a volume of $3,500 million to $4,000 million,* about 54 percent above that during 1956-60. At the same time, the Soviet-Rumanian turnover in 1965 may be expected to come close to $900 million, 67 percent above the level in 1960. The implied average annual rate of growth in Soviet-Rumanian trade, about 11 percent, exceeds that estimated for the total Soviet and the total Rumanian foreign trade during 1961-65 and consequently should result in some increase in each country's share of the other's total trade.

1. Soviet Exports

As is the case with the other European Satellite countries, the USSR is the largest trading partner of Rumania, and for most of the postwar period Soviet exports have been the primary source of Rumanian imports of industrial raw materials, semifabricates, and machinery and equipment. Thus in 1960 the Soviet share of Rumanian imports of key materials was as follows: iron ore, 90 percent; rolled ferrous metals, 60 percent; steel pipe and tubes, 33 percent; ferroalloys, almost 100 percent; industrial coke, more than 60 percent; apatite concentrate, 100 percent; synthetic rubber, 65 percent; and cotton, about 60 percent. Of substantial importance to Rumanian industrial development were Soviet deliveries of complete plant installations, which in 1960 accounted for about 30 percent of Rumanian imports in this category. 77/

In accord with the requirements of the Rumanian Six Year Plan, Soviet exports to Rumania during 1961-65 will show substantial increases. Of perhaps greatest significance are the planned shipments of machinery and equipment, which at $500 million exceed the volume previously delivered during 1956-60 by 140 percent. 78/ Included are a number of plants and installations of key importance to the achievement of Rumanian industrial plan targets. Thus the USSR is to assist in the expansion and diversification of the Rumanian iron and steel industry, in the construction of an aluminum plant scheduled to produce 50,000 metric tons annually, and in the construction of a factory for the secondary processing of nonferrous metals. The USSR apparently also will deliver power-generating equipment required for a series of thermal-electric powerplants generating 550,000 kilowatts, approximately 25 percent of new capacity to be installed during the period through 1965. In addition, the USSR is to supply metalcutting machine tools, forging and processing equipment, road construction machinery, machinery for the food industry, textile mills, transportation and hoisting equipment, and agricultural machinery. 79/

Soviet deliveries of industrial raw materials and fuels also are scheduled to increase substantially. Most important are the planned

* For purposes of computation, the figure of $3,700 million is used in Table 1, p. 7, above.

increases in shipments of coking coal, iron ore, and pig iron, on which the Rumanian iron and steel industry will depend increasingly, as its domestic resource base is insufficient to support the planned expansion in output. Planned Soviet exports to Rumania during 1961-65 are compared with actual exports during 1956-60 in Table 16, which reflects the continuing importance of Soviet deliveries to Rumanian economic growth.

Table 16

Selected Soviet Exports to Rumania
1956-60 and Planned for 1961-65

Commodity	Unit	1956-60	1961-65 Plan	Increase (Percent)
Machinery and equipment	Million current US $	208	500	140
Coal	Million metric tons	0.16	0.95	497
Coke	Million metric tons	2.07	2.90	40
Iron ore	Million metric tons	3.36	7.10	111
Pig iron	Million metric tons	0.03	0.66	21 times
Rolling mill products	Million metric tons	2.28	2.80	23
Apatite concentrate	Million metric tons	0.29	0.52	79
Cotton	Million metric tons	0.15	0.15	0

2. Rumanian Exports

With the possible exception of petroleum products, Rumanian exports have contributed only marginally to the fulfillment of Soviet import requirements.* Petroleum products, traditionally a high-quality Rumanian export commodity, provided about 40 percent of the total Rumanian exports to the USSR during 1956-60 ($480 million) and accounted

* Data on Rumanian exports to the USSR through 1960 are based on official Soviet statistics. 80/

for more than 80 percent of the total Soviet imports of these products. However, inasmuch as a substantial share of these shipments is believed to have gone to third countries (including the other Satellites and Communist China) on Soviet account, their direct contribution to the satisfaction of Soviet import requirements cannot be readily measured.

Wood and wood products, also traditional Rumanian export commodities, provided about 15 percent of the total exports to the USSR ($170 million) and accounted for about one-third of the total Soviet imports in this category. Deliveries of machinery and equipment ($80 million), although representing a substantial share of the exports of the still modest Rumanian machine building industries, accounted for less than 7 percent of the total exports and provided only slightly more than 1 percent of Soviet imports of machinery. Deliveries of petroleum pipe ($60 million), which quadrupled between 1958 and 1960, currently supply more than 150,000 metric tons of pipe and account for nearly 80 percent of Soviet imports of petroleum pipe. Rumanian deliveries, however, do not include the large-diameter transmission pipe, which is in most critical supply within the Bloc. Other Rumanian exports to the USSR include cement, selected chemicals, agricultural products, and, in recent years, increasing quantities of manufactured consumer goods.

Planned Rumanian exports to the USSR during 1961-65 reflect a decline in the share of traditional export commodities, notably petroleum products, cement, and lumber. Scheduled for substantial increases, on the other hand, both in absolute value and as a share of the total exports, are deliveries of machinery and equipment, produced in part in conformance with CEMA specialization assignments but in part also on direct Soviet orders. Generally oriented to Soviet investment priorities, these deliveries are to include for the first time substantial quantities of chemical and petroleum refining equipment as well as greatly increased quantities of drilling installations, electric transformers, and ocean-going and river ships. Substantial increases also are scheduled for exports of petroleum pipe, selected chemicals, and industrial and consumer manufactures. Planned Rumanian exports to the USSR during 1961-65 are compared with actual deliveries during the preceding 5-year period in Table 17,* which reflects some of the incipient changes in the Rumanian export pattern.

The substantially increased Soviet deliveries of raw materials and capital equipment will assist Rumania in further expanding its basic industrial structure. Simultaneously, increased Soviet orders -- particularly for oil well drilling installations and pipe,

* Table 17 follows on p. 55.

Table 17

Selected Rumanian Exports to the USSR
1956-60 and Planned for 1961-65

Commodity	Unit	1956-60	1961-65 Plan	Increase or Decrease (Percent)
Machinery and equipment				
Of which:				
Ships and marine equipment	Million current US $	60	80 a/	30
Power transformers	Million kilovolt-amperes	0.73	2.05	181
Chemical and petroleum refining equipment	Million metric tons	Negl.	0.16	N.A.
Oil well drilling equipment	Million current US $	10	50 a/	400
Petroleum pipe	Million metric tons	0.30	0.94	213
Petroleum products	Million metric tons	14.62	9.50	-36
Cement	Million metric tons	3.15	2.70	-14
Soda	Million metric tons	0.08	0.60	711
Beech lumber	Million cubic meters	0.83	1.06	28
Furniture	Million current US $	0.03	0.12	287

a. Estimated.

chemical equipment and selected chemicals, and consumer manufactures -- will insure the further expansion of those specialized machine building and processing industries that most effectively utilize Rumania's production experience and natural resources.

The singular importance of further expanding these industries derives mainly from the fact that, in the face of declining prospects for petroleum products* and timber, traditionally the principal Rumanian export commodities and foreign exchange earners, new export industries must be sought to generate the increasing volume of exports necessary to pay for the constantly rising import requirements of the planned industrialization program.

The advantages inherent in this new pattern of Soviet-Rumanian trade extend beyond their respective long-range production plans. Again, as in the case of other less developed Satellite countries, the immediate economic advantages accruing to the USSR from Soviet-Rumanian trade may be secondary to political considerations, in particular to the overriding objective of assuring the development of a viable Rumanian economy which will recognize that its future growth is indissolubly linked to that of the USSR and the entire Soviet Bloc.

* The cutback in planned Soviet purchases of Rumanian petroleum products may well result in an over-all decline in Rumanian markets, for it appears unlikely that Rumania will succeed in expanding its sales to other areas sufficiently to compensate for the decline in the Soviet market.

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