
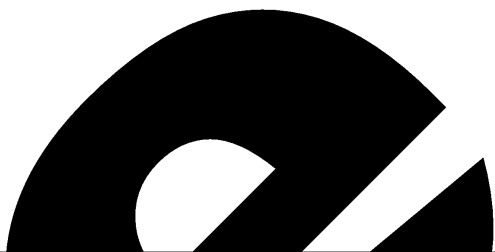


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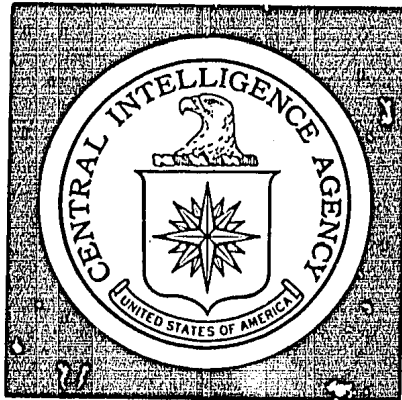

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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Prospects For Soviet Economic Relations
With Eastern Europe In 1971-75*

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ER IM 71-147
August 1971

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
August 1971

INTELLIGENCE MEMORANDUM

PROSPECTS FOR SOVIET ECONOMIC RELATIONS WITH EASTERN EUROPE IN 1971-75

Introduction

1. In the last four years Soviet trade with Eastern Europe has grown at 10% annually, keeping pace with the growth of total Soviet trade. The 1971-75 trade agreements envision a continued high rate of growth in Soviet - East European trade and an acceleration in their mutual deliveries of machinery and equipment. A step-up in economic integration within the Council for Mutual Economic Assistance (CEMA) is also planned. This memorandum discusses the projected trade between the USSR and Eastern Europe during the current five-year plan period (1971-75) and identifies the more important areas of Soviet - East European cooperation associated with the renewed interest in economic integration within CEMA.

Discussion

Background

2. The USSR conducts more than half of its trade with Eastern Europe (see the chart), a share it has maintained for the past two decades. During 1967-70, Soviet trade with Eastern Europe has grown at an average annual rate of about 10%, reaching a value of \$13.4 billion in 1970. 1/

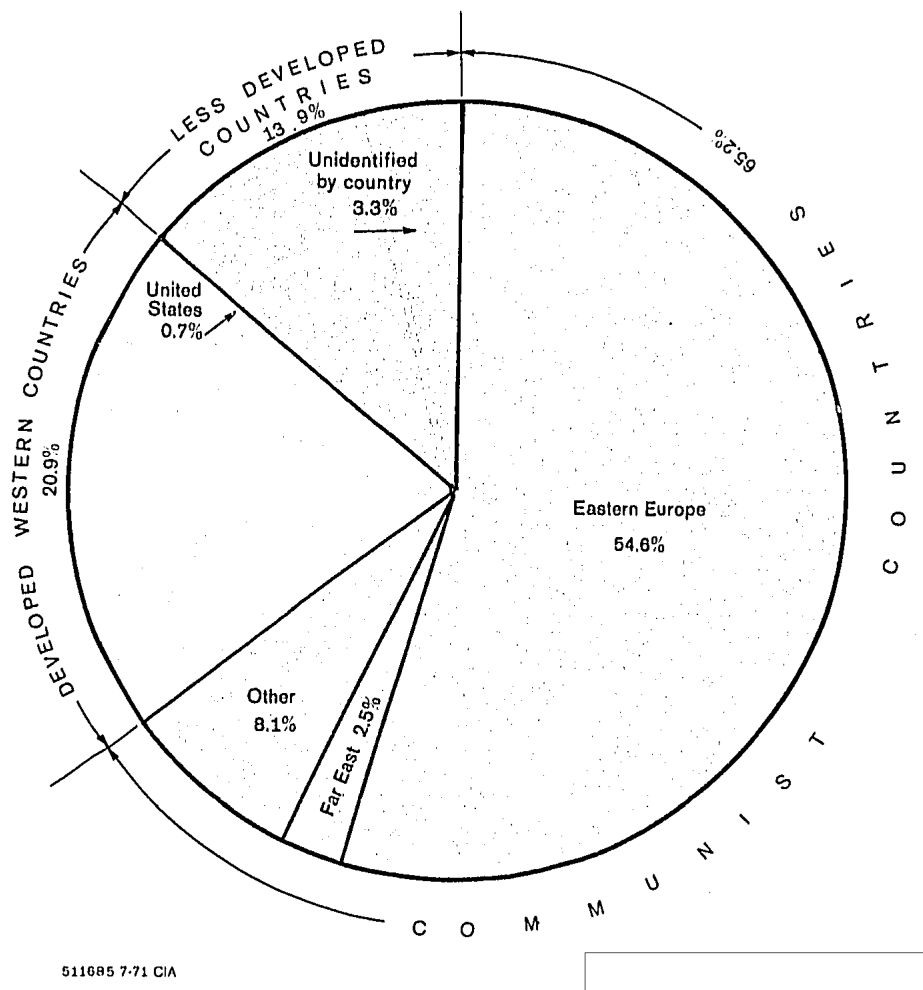
1. *The development of trade during the four years 1967-70, rather than in the full five-year plan period (1966-70), more accurately reflects the recent growth in Soviet - East European trade. The CEMA foreign trade price revision begun in 1965 and fully implemented by 1966 reduced prices of many goods and resulted in a decline in the value of Soviet - East European trade in 1966, although the volume increased (see Table 1).*

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

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Distribution of Soviet Foreign Trade in 1970



The growth of Soviet trade with Poland has been the most dynamic during this period, growing an average of more than 14% per year. As a result, Poland has taken over second place from Czechoslovakia. East Germany, however, remains the USSR's chief trade partner. Soviet trade with Hungary also has grown faster than the average rate with Eastern Europe. A combination of reduced CEMA foreign trade prices and the reorientation of Romanian trade to the West precipitated a decline in Soviet-Romanian trade in 1966, from which recovery has been slow (see Table 1).

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Table 1

Soviet Trade Turnover with Eastern Europe a/

	Million US \$						Average Annual Increase (Percent)	
	1965	1966	1967	1968	1969	1970	1966-70	1967-70
Bulgaria	1,204	1,351	1,537	1,841	1,949	2,018	10.9	10.6
Czechoslovakia	1,961	1,813	1,950	2,028	2,224	2,437	4.4	7.7
East Germany	2,648	2,645	2,829	3,112	3,368	3,661	6.7	8.5
Hungary	1,061	1,016	1,183	1,344	1,419	1,644	9.2	12.8
Poland	1,507	1,536	1,815	2,082	2,323	2,611	11.6	14.2
Romania	844	792	819	873	926	1,021	3.9	6.6
<i>Total</i>	<i>9,225</i>	<i>9,154</i>	<i>10,131</i>	<i>11,280</i>	<i>12,210</i>	<i>13,392</i>	<i>7.7</i>	<i>10.0</i>

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

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3. The composition of Soviet exports to Eastern Europe has not changed a great deal in recent years (see Table 2). Fuels, raw materials, and semimanufactures continue to account for a significant although a declining share of the total. Exports of some items such as crude oil, pig iron, and steel increased considerably less in value than in quantity because of reduced CEMA prices. Other crude materials (for example, coke and iron ore) increased very little, and some (for example, hard coal and cotton) actually declined in volume. Grain exports rose substantially during 1965-69, rising from 2.8 million tons to 4.4 million tons, but the increase in volume (57%) was substantially less than the value increase (83%).

4. The large and growing volume of Soviet exports of raw materials to Eastern Europe, however, is not sufficient to cover the ever-growing East European requirements for these goods. Supply constraints in the USSR and the need for the USSR to export these commodities to the West to earn hard currency probably have combined to prevent the USSR from providing a greater share of Eastern Europe's total requirements. Consequently, being generally in deficit in raw material resources, the East European countries have had to turn to Free World sources to cover part of their requirements (see Table 3). Nevertheless, except for East Germany and Romania, East European imports of such commodities from the USSR have grown faster than similar imports from the Free World, although they have slowed down in 1966-69 compared to 1961-65.

5. Soviet exports of raw materials and semimanufactures to East Germany fell between 1965 and 1969, although they remained much the largest in Eastern Europe. Soviet deliveries to East Germany of mineral fuels in 1969 were about \$20 million below the 1965 level as the sharp decline in petroleum products, coal, and coke more than offset the substantial increase in Soviet deliveries of crude oil. Adding to East German problems was the decline in Soviet exports of base metals and manufactures, which in 1969 were \$8 million less than in 1965. To compensate for this decline in vital raw materials, East Germany had to go to the West - particularly to West Germany - to obtain adequate supplies. It would appear that Moscow considered East Germany's dependence on Soviet materials to be excessive in view of its own supply problem.

6. Soviet exports of machinery and equipment increased about 70% during 1966-69, or from 17% to about 22% of total Soviet exports to Eastern Europe. Increased deliveries of machinery and equipment to East Germany (three times the 1965 level) and to Poland accounted for almost 60% of the overall increase to Eastern Europe. Almost across the board, this increase can be traced to the greatly expanded Soviet deliveries of transportation equipment which accounted for 50% of the overall increase to Eastern Europe and, for East Germany and Poland, 45% and 34%,

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Table 2
Soviet Exports to Eastern Europe, by Commodity a/

	Value in Million US \$									
	1965		1966		1967		1968		1969	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
<i>Total</i>	<u>4,553</u>	<u>100.0</u>	<u>4,692</u>	<u>100.0</u>	<u>5,039</u>	<u>100.0</u>	<u>5,636</u>	<u>100.0</u>	<u>6,198</u>	<u>100.0</u>
Machinery and equipment	<u>787</u>	<u>17.3</u>	<u>960</u>	<u>20.5</u>	<u>1,100</u>	<u>21.8</u>	<u>1,230</u>	<u>21.8</u>	<u>1,340</u>	<u>21.6</u>
Complete enterprises	213	4.7	246	5.2	276	5.5	301	5.3	304	4.9
Tractors and agricultural machines	140	3.1	156	3.3	166	3.3	151	2.7	146	2.4
Transportation equipment	161	3.5	252	5.4	320	6.4	394	6.9	439	7.1
Fuels, lubricants, and related materials	<u>755</u>	<u>16.6</u>	<u>734</u>	<u>15.6</u>	<u>758</u>	<u>15.0</u>	<u>824</u>	<u>14.6</u>	<u>940</u>	<u>15.2</u>
Hard coal and coke	265	5.8	243	5.1	226	4.5	204	3.6	218	3.5
Oil and oil products	470	10.4	466	9.9	490	9.7	566	10.0	650	10.5
Ores and concentrates, metallic	<u>271</u>	<u>6.0</u>	<u>254</u>	<u>5.4</u>	<u>273</u>	<u>5.4</u>	<u>296</u>	<u>5.3</u>	<u>303</u>	<u>4.9</u>
Iron ore	243	5.3	231	4.9	248	4.9	274	4.9	277	4.5
Ferrous metals	<u>718</u>	<u>15.8</u>	<u>700</u>	<u>14.9</u>	<u>723</u>	<u>14.4</u>	<u>766</u>	<u>13.6</u>	<u>910</u>	<u>14.7</u>
Pig iron	106	2.3	101	2.2	108	2.1	137	2.4	167	2.7
Rolled ferrous metals	510	11.2	498	10.6	510	10.1	520	9.2	614	9.9
Nonferrous metals	<u>210</u>	<u>4.6</u>	<u>217</u>	<u>4.6</u>	<u>229</u>	<u>4.6</u>	<u>276</u>	<u>4.9</u>	<u>261</u>	<u>4.2</u>
Chemicals	<u>123</u>	<u>2.7</u>	<u>135</u>	<u>2.9</u>	<u>144</u>	<u>2.8</u>	<u>171</u>	<u>3.0</u>	<u>212</u>	<u>3.4</u>
Wood and wood products	<u>186</u>	<u>4.1</u>	<u>200</u>	<u>4.3</u>	<u>220</u>	<u>4.4</u>	<u>249</u>	<u>4.4</u>	<u>279</u>	<u>4.5</u>
Textile raw materials	<u>322</u>	<u>7.1</u>	<u>332</u>	<u>7.1</u>	<u>290</u>	<u>5.8</u>	<u>306</u>	<u>5.4</u>	<u>265</u>	<u>4.3</u>
Cotton fiber	255	5.6	266	5.7	235	4.7	258	4.6	216	3.5
Consumer goods	<u>424</u>	<u>9.3</u>	<u>465</u>	<u>9.9</u>	<u>587</u>	<u>11.6</u>	<u>574</u>	<u>10.2</u>	<u>556</u>	<u>9.0</u>
Grains	200	4.4	188	4.0	271	5.4	277	4.9	322	5.2
Other food	153	3.4	202	4.3	229	4.5	194	3.5	122	2.0
Manufactured consumer goods	71	1.6	75	1.6	86	1.7	103	1.8	112	1.8
Other	<u>112</u>	<u>2.5</u>	<u>134</u>	<u>2.9</u>	<u>152</u>	<u>3.0</u>	<u>155</u>	<u>2.8</u>	<u>178</u>	<u>2.9</u>
Unspecified b/	<u>645</u>	<u>14.2</u>	<u>562</u>	<u>12.0</u>	<u>563</u>	<u>11.2</u>	<u>789</u>	<u>14.0</u>	<u>954</u>	<u>15.4</u>

a. Because of rounding, components may not add to the totals shown. Percentages are derived from unrounded data.
b. Believed to include Soviet military-related deliveries to Eastern Europe.

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Table 3

Soviet and Free World Exports to Eastern Europe
of Raw Materials and Semimanufactures a/

	Million US \$ <u>b/</u>						Percent Change <u>c/</u>			
	Soviet Exports			Free World Exports			Soviet Exports		Free World Exports	
	1960	1965	1969	1960	1965	1969	1965/60	1969/65	1965/60	1969/65
Bulgaria	123	262	441	64	119	163	112	68	85	37
Czechoslovakia	304	534	647	333	324	336	75	21	-3	4
East Germany	703	936	903	258	328	456	33	-4	27	39
Hungary	177	311	444	139	187	240	75	43	34	29
Poland	260	378	594	327	389	493	46	57	19	27
Romania	163	232	224	95	182	329	42	-3	92	80
<i>Total</i>	<i>1,730</i>	<i>2,652</i>	<i>3,253</i>	<i>1,216</i>	<i>1,529</i>	<i>2,017</i>	<i>53</i>	<i>23</i>	<i>26</i>	<i>32</i>

a. Based on Soviet and Free World statistics. Soviet data has been adjusted to US Department of Commerce categories which include the following: crude materials, inedible, except fuels; mineral fuels, lubricants, and related materials; animal and vegetable oils and fats; chemicals; and base metals and manufactures.

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

c. Derived from unrounded data.

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respectively. Bulgaria, however, remains the single largest market in Eastern Europe for Soviet machinery and equipment, accounting for roughly 30% of such sales since 1965.

7. Soviet imports from Eastern Europe feature machinery and equipment, accounting for 40%-45% of the total annually (see Table 4). Imports from Eastern Europe account for roughly two-thirds of total Soviet imports of machinery and equipment, with East Germany supplying one-fourth of the imports from all sources. Consumer goods, mainly manufactured items, also account for a significant share of Soviet imports from Eastern Europe. Imports of consumer goods have risen steadily in recent years but their share has declined somewhat. Eastern Europe, nevertheless, is the chief source of Soviet imports of manufactured consumer goods, accounting for 70% of the Soviet world total in 1969. Leading categories are clothing, shoes, and furniture.

Continued High Growth Rates Forecast Through 1975

8. According to the recently concluded trade agreements, Soviet trade with Eastern Europe will increase 50% compared with the previous five-year period, totaling about \$84.1 billion during 1971-75. The implicit average annual growth rate of nearly 8% would raise the level of trade from the \$13.4 billion achieved in 1970 to about \$19.4 billion in 1975. The individual trade agreements envision trade with Bulgaria and East Germany growing 10% or more per year, and with Czechoslovakia and Hungary, about 7% and 8%, respectively. Much lower rates are implied for Soviet trade with Poland and Romania - about 4% and 5%, respectively. It is estimated, however, that Soviet trade with Eastern Europe will grow even more than provided for in the agreements. The USSR regularly surpasses the targets set in its five-year trade agreements with Eastern Europe. The long-term trade agreements are less detailed in the goods to be traded than the annual agreements which often provide for deliveries not specified in the five-year agreements. The 1961-65 trade agreements with Eastern Europe were overfulfilled by 18%, while those of 1966-70 were overfulfilled by more than 6%. In fact, early in 1966 the USSR projected the actual value of trade with Eastern Europe during 1966-70 at some \$56 billion, rather than the \$53 billion stipulated in the long-term trade agreements; the overfulfillment of 6% was thus anticipated. The individual 1971-75 trade agreements are briefly discussed below.

USSR-Bulgaria

9. The trade agreement provides for a 60% increase in 1971-75 compared to 1966-70, with a trade turnover of about \$13.9 billion for the five-year period. The implicit average growth rate of nearly 11% per

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Table 4

Soviet Imports from Eastern Europe, by Commodity a/

	Value in Million US \$									
	1965		1966		1967		1968		1969	
	Value	Percent	Value	Percent	Value	Percent	Value	Percent	Value	Percent
<i>Total</i>	<u>4,673</u>	<u>100.0</u>	<u>4,462</u>	<u>100.0</u>	<u>5,093</u>	<u>100.0</u>	<u>5,644</u>	<u>100.0</u>	<u>6,011</u>	<u>100.0</u>
Machinery and equipment	<u>2,114</u>	<u>45.2</u>	<u>1,926</u>	<u>43.2</u>	<u>2,185</u>	<u>42.9</u>	<u>2,509</u>	<u>44.5</u>	<u>2,679</u>	<u>44.6</u>
Railroad rolling stock	295	6.3	247	5.5	264	5.2	264	4.7	302	5.0
Motor vehicle garage equipment	143	3.1	139	3.1	164	3.2	198	3.5	228	3.8
Ships and marine equipment	291	6.2	292	6.6	329	6.5	386	6.8	379	6.3
Fuels, lubricants, and related materials	<u>189</u>	<u>4.1</u>	<u>175</u>	<u>3.9</u>	<u>176</u>	<u>3.5</u>	<u>160</u>	<u>2.8</u>	<u>165</u>	<u>2.7</u>
Hard coal	103	2.2	112	2.5	119	2.3	107	1.9	112	1.9
Ores and concentrates, metallic	<u>145</u>	<u>3.1</u>	<u>121</u>	<u>2.7</u>	<u>114</u>	<u>2.2</u>	<u>125</u>	<u>2.2</u>	<u>142</u>	<u>2.4</u>
Ferrous metals	<u>107</u>	<u>2.3</u>	<u>89</u>	<u>2.0</u>	<u>90</u>	<u>1.8</u>	<u>102</u>	<u>1.8</u>	<u>127</u>	<u>2.1</u>
Chemicals	<u>198</u>	<u>4.2</u>	<u>213</u>	<u>4.8</u>	<u>256</u>	<u>5.0</u>	<u>293</u>	<u>5.2</u>	<u>327</u>	<u>5.4</u>
Consumer goods	<u>1,188</u>	<u>25.4</u>	<u>1,266</u>	<u>28.4</u>	<u>1,533</u>	<u>30.1</u>	<u>1,636</u>	<u>29.0</u>	<u>1,712</u>	<u>28.5</u>
Food	304	6.5	290	6.5	351	6.9	364	6.5	388	6.5
Manufactured consumer goods	884	18.9	976	21.9	1,182	23.2	1,272	22.5	1,323	22.0
Other	<u>259</u>	<u>5.5</u>	<u>248</u>	<u>5.5</u>	<u>274</u>	<u>5.4</u>	<u>278</u>	<u>4.9</u>	<u>257</u>	<u>4.2</u>
Unspecified b/	<u>472</u>	<u>10.1</u>	<u>424</u>	<u>9.5</u>	<u>464</u>	<u>9.1</u>	<u>540</u>	<u>9.6</u>	<u>603</u>	<u>10.0</u>

a. Because of rounding, components may not add to the totals shown. Percentages are derived from unrounded data.

b. Believed to include East European deliveries of uranium and some military-related items to the USSR.

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that of the previous five years. The USSR also will continue traditional deliveries of raw materials and semimanufactures, including crude oil which is to total more than 64 million tons compared with 38 million tons in 1966-70. Prospects for other materials are mixed, with some declining (for example, coal and iron ore) and some remaining at about the same level as in 1970 (for example, ferrous metals), so that by 1975 the total value of such deliveries may have changed very little. East German exports of consumer goods are to total some \$2.6 billion during 1971-75.

USSR-Hungary

12. The trade agreement calls for trade to increase 56% during 1971-75 compared to the previous five years, reaching a total value of \$10.3 billion. Implicit in this figure is an average annual increase of 7.7%. Both the USSR and Hungary, however, have given a target of \$2.4 billion by 1975, implying an average annual growth rate of 8.3%. According to the agreement, machinery and equipment are to account for 50% of Hungarian exports (45% in 1969). Overall, mutual deliveries of machinery and equipment are expected to increase 65% during 1971-75, faster than total trade. Soviet raw material exports will continue to satisfy the bulk of Hungary's import requirements as follows: oil, 85%; iron ore, 95%; pig iron, 97%; phosphate fertilizers, 91%; and lumber, 85%.

USSR-Poland

13. Soviet trade with Poland is to amount to \$14.6 billion during 1971-75 according to the long-term agreement, or about 40% more than the value of goods traded during 1966-70. This means an average annual increase of less than 4% from the 1970 level. Soviet trade with Poland, however, will probably grow at more than double that rate. Poland will be receiving a billion rubles in economic aid from the USSR presumably during 1971-75. The recently announced (June 1971) supplemental trade agreement, according to which Soviet-Polish trade during 1972-75 is to exceed the original plan, probably is connected to the Soviet aid package. Meanwhile, the protocol for 1971 calls for a 9% increase in trade compared to 1970. There also have been statements in the Soviet and Polish press citing a 13% average annual increase in their mutual trade during 1971-75, but at the present time there is insufficient evidence to support claims for such high rates of growth. A growth rate of 9% annually is more likely. According to the original agreement, mutual deliveries of machinery and equipment are to increase 80%, including a 60% increase in Polish deliveries, which are to exceed \$5 billion during 1971-75 (implicitly, Soviet deliveries are to increase more than 80%). Increased exports of Soviet raw materials to Poland are to include 48 million tons of oil, 53 million tons of iron ore, eight million tons of pig iron, and three million tons of rolled ferrous metals.

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USSR-Romania

14. The Soviet-Romanian long-term trade agreement provides for exchanges of goods valued at \$5.9 billion during 1971-75, a 33% increase over the volume of trade during 1966-70, and an average annual increase of less than 5%. It is believed that this agreement also will be overfulfilled, although probably for different reasons than for the other countries. The Romanians apparently have been careful not to commit themselves to a volume of trade which might seriously limit their flexibility in dealing with the Soviets. Virtually no increase in trade was provided for in the 1966-70 trade agreement, for example, but, following an initial decline in 1966, Soviet-Romanian trade grew at an average annual rate of nearly 7% over the next four years. The 1971 protocol also calls for a 7% increase. Accordingly, it is estimated that Soviet-Romanian trade will grow at about the same rate as during the previous four years.

15. Our forecast for 1971-75 is for a minimum of \$87.6 billion for Soviet trade with all six East European countries (see Table 5). This represents a projected overfulfillment of about 4%. Trade is likely to be even larger. Already, there has been a Soviet statement to the effect that trade with Eastern Europe in 1975 is to be 58% greater than in 1970. This implies an overfulfillment of nearly 6%, with trade growing at an average annual rate of 9.6% (based on the value of trade in 1970), which would raise trade in 1975 to some \$21.2 billion.

16. An important factor in the projected growth of Soviet trade with Eastern Europe is the planned acceleration of mutual deliveries of machinery and equipment. A review of the trade agreements suggests that such deliveries will grow at least 50% faster than the total trade turnover - that is, by about 13% or more per year - and that Soviet exports of machinery and equipment to Eastern Europe will develop at a higher rate than imports, especially to East Germany and Poland. Overall, it is estimated that the Soviet deliveries will approximately double their value compared to 1966-70. The USSR nevertheless will remain a net importer of these goods from Eastern Europe.

17. Except for the modification in the structure of Soviet exports because of planned increases in machinery and equipment deliveries, the goods to be exchanged between the USSR and Eastern Europe will remain largely the same as during the previous five-year plan period. Soviet exports to Eastern Europe will continue to consist primarily of fuels, raw materials, and semimanufactures. During 1971-75, for example, the USSR is scheduled to deliver 243 million tons of oil (a 76% increase over 1966-70), 33 billion cubic meters of natural gas (four times the 1966-70 level), and 94 million tons (iron content) of iron ore (a 30% increase). Imports from Eastern

Table 5

Soviet - East European Five-Year Trade Agreements and Actual Trade

	Million US \$				Average Annual Increase (Percent)				
	1966-70		1971-75		1966-70			1971-75	
	Trade Agreement	Actual	Trade Agreement	Estimate	Trade Agreement	Actual	1967-70	Trade Agreement	Estimate
Bulgaria	7,800	8,696	13,890	13,890	8.8	10.9	10.6	10.9	10.9
Czechoslovakia	11,110	10,452	15,000	15,440	4.2	4.4	7.7	7.0	8.0
East Germany	14,440	15,615	24,440	24,440	2.9	6.7	8.5	9.8	9.8
Hungary	6,330	6,607	10,330	10,500	5.9	9.2	12.8	7.7	8.3
Poland	8,890	10,367	14,560	17,030	5.6	11.6	14.2	3.7	9.0
Romania	4,220	4,430	5,890	6,280	0	3.9	6.6	4.8	7.0
<i>Total</i>	<i>52,790</i>	<i>56,167</i>	<i>84,110</i>	<i>87,580</i>	<i>4.5</i>	<i>7.7</i>	<i>10.0</i>	<i>7.7</i>	<i>9.0</i>

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Europe will continue to be dominated by machinery and equipment and manufactured consumer goods. Included in the Soviet shopping list for 1971-75 are chemical plant and equipment worth nearly \$1.5 billion (three times the 1966-70 level), railroad and water transportation equipment worth roughly \$3 billion (no apparent change over 1966-70), and manufactured consumer goods worth roughly \$9.5 billion (about a 50% increase over 1966-70).

Renewed Interest in Economic Integration

18. To some degree, the projected acceleration of mutual deliveries of machinery and equipment is a reflection of the planned step-up in economic cooperation among the CEMA member countries. The renewed emphasis on economic integration stems in part from the growing realism of most East European countries about what imports of Western capital goods can and cannot do to solve pressing economic problems. Eastern Europe's trade with the West will continue to grow, but the difficulties in expanding exports to the West, as well as the significant indebtedness to the West, makes increased trade and cooperation within CEMA increasingly attractive.

19. In general, the CEMA countries now appear to be somewhat more amenable to the idea of the coordination of their long-run economic plans at the production stage than in the past, when cooperation meant chiefly the coordination of mutual trade. This renewed interest in economic integration within CEMA, however, does not mean that these countries are accepting the idea of supranational planning as proposed by Khrushchev in 1962. East European economic and political nationalism is still too strong a force to permit this, as is their general distrust of Soviet intentions.

20. The progress of economic integration will depend to some degree on Soviet efforts in stimulating Eastern Europe's interest in CEMA integration. To help promote the integration of the CEMA economies, the USSR will have to become more involved in integration schemes than it has in the past. In the absence of Soviet involvement, Eastern European integration might conceivably create autonomous bodies which eventually could threaten Soviet economic control over Eastern Europe. It is extremely unlikely, however, that the USSR will permit integration to develop to this point. For example, it is very doubtful that the CEMA organization "Intermetal" would ever evolve into anything comparable to the European Coal and Steel Community. Short of that, further integration would tend to strengthen Soviet control, and therefore it is the East Europeans who feel threatened by integration. Except perhaps for the Bulgarians, the East Europeans likely will stress the principle of mutual advantage in their economic dealings with Moscow. In so doing, they will attempt to preserve whatever independence of the USSR they may now possess.

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Areas of Soviet - East European Cooperation

21. The earlier impasse over the scope and forms of future economic cooperation with Eastern Europe was apparently resolved in part at the 23rd special CEMA session of April 1969. Soviet participation in integration schemes was discussed [redacted]

[redacted] the USSR plans "to organize on a broad scale the specialization and cooperation of its industry with other CEMA countries in the manufacture and delivery of assemblies and components for the production of automobiles, buses, and roadbuilding and other types of machinery and equipment and also in the development of the production of computer equipment." [redacted] the efforts of the CEMA countries were being combined in research and development in the electronics, machine building, and chemical industries.

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22. Agreement already has been reached on a number of specific cooperation projects within CEMA between the USSR and various East European countries, some bilateral and some multilateral. In the automotive industry, for example, the USSR has concluded agreements with Bulgaria, Czechoslovakia, Hungary, and Poland whereby, in exchange for Soviet automobiles, these countries are to deliver various parts to the VAZ plant in Tolyatti. A Soviet credit to Czechoslovakia to be drawn down during 1971-77 will enable the latter to more than double the output of a heavy Tatra truck plant to over 7,000 units per year. Eventually, about half the output will go to the USSR. In addition, the USSR and Hungary have extended an earlier agreement according to which the USSR specializes in the production of rear-end suspensions for buses, while Hungary specializes in the production of front-end suspensions.

23. In other areas, the USSR has concluded various cooperation and specialization agreements with all the East European countries (except Romania) on the development and production of individual types of computers and auxiliary equipment. The Soviet agreement with Hungary on computer technology by itself envisions mutual trade of nearly \$280 million during 1971-75. Agreements also have been concluded with nearly all the CEMA countries on cooperation in the machine tool building industry as well as expanded cooperation in the chemical industry whereby new facilities are to be built throughout Eastern Europe with Soviet technical assistance. This will bring these countries to an even higher level of interdependence in chemicals than has been achieved in the past. Major products subject to coordination during 1971-75 will include advanced types of manmade fibers, plastics, synthetic rubber, olefins, and other items.

24. In addition to cooperation involving installations within their own borders, the East European countries will continue to invest in various

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facilities in the USSR, particularly in the raw materials industries. In exchange for increased Soviet deliveries of raw materials, the East European countries have agreed to a "more extensive participation in the development of the corresponding production capacities in the Soviet Union." [redacted]

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[redacted] the USSR has concluded agreements (the details of which are not known) with Czechoslovakia and East Germany for their participation in the expansion of the Soviet petroleum and gas industries; with Poland and Hungary for further developing the Druzhiba oil pipeline; with Bulgaria for increasing the capacities of the Soviet gas, timber, cellulose, and metallurgical industries; with Romania for increasing capacities in the Soviet iron ore industry; and with Hungary for increasing the production of cardboard, asbestos, and phosphorous-bearing raw materials and fertilizers.

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25. The newly created CEMA International Investment Bank (IIB) 5/ probably will participate in the financing (at least partly) of those projects which either involve three or more countries or require hard-currency purchases (Western equipment). 6/ None of the above projects have been singled out as candidates for financing by this new bank so far, but to the extent that Western equipment or technology is to be used, it should not be surprising to find the IIB involved. Moreover, to the extent that the IIB participates in the financing of these projects on Soviet territory, the cost to the East Europeans will be spread and therefore will be less of a burden for any single country. It may well be that the establishment of the IIB was a necessary prerequisite to East European acceptance of the persistent Soviet demands to invest in its raw materials industries.

Maintenance of the Soviet Hegemony over Eastern Europe

26. All evidence points to the USSR continuing as the dominant trade partner of all the East European countries. The USSR will continue to account for more than one-fourth of Romanian trade and roughly one-third of Czechoslovak trade (see Table 6). The USSR is expected to increase further its already substantial share of the other four countries' trade: Bulgaria, from the current level of about 53% to about 58% by 1975.

5. The CEMA Investment Bank began operations on 1 January 1971. Its charter allows for the floating of bonds on international money markets, which (together with deposits from non-Communist countries) likely will provide most of the bank's hard currency funds. Member countries, for example, are to pay in \$194 million during 1971, including only \$58 million in gold and/or hard currency. Eventually the bank's paid-in capital is to reach 1 billion rubles (nominally \$1.1 billion), with one-third in the form of gold and/or hard currency.

6. Presumably, traditional bilateral arrangements are sufficient for projects that involve only two parties and require no hard currency purchases.

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Table 6
Soviet Share of East European Trade Turnover

	Percent			
	<u>1965</u>	<u>1967</u>	<u>1969</u>	<u>1970</u>
Bulgaria	51	51	55	53 <u>a/</u>
Czechoslovakia	37	35	34	32
East Germany	43	42	41	39
Hungary	36	35	36	34
Poland	33	35	37	37
Romania	39	28	27	26 <u>a/</u>

a. Estimate.

Poland, from 37% to 40%; Hungary, 34% to 36%; and the Soviet share of East Germany's trade "will be even more" in 1975 than the current level of 39%.

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27. Alone among the East European countries, Romania has been able to steer a relatively independent political as well as economic course from Moscow since the early 1960s. Contributing to this posture vis-a-vis Moscow is that Romania is the least dependent upon the USSR for vital raw materials. Its raw material wealth also has been a critical factor in Romania's ability to expand trade with the West. In addition, recent economic aid from Communist China will tend to support Romania's quest for independence. In the past, Chinese support was largely political reassurance, but now it has taken more tangible form - a \$300 million credit extended this year, \$100 million of which purportedly to be in hard currency. In view of the damage to the Romanian economy resulting from last year's floods, this credit - especially the hard currency portion - will help the Romanian leadership maintain the independence it has achieved to date. The Romanians also have been able to obtain substantial amounts of Western credit, particularly from West Germany.

28. The rest of Eastern Europe, however, has not obtained this degree of assistance from either Communist China or elsewhere, and they are considerably more dependent upon the USSR for imports of raw materials.

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[redacted] for example, Czechoslovakia and East Germany import about 40% of their total raw materials requirements. The figure is 27% in Hungary and about 15% or less in Poland and Bulgaria. The bulk of these raw material requirements are met by imports from the USSR. For example, in 1969 imports by the countries of Eastern Europe from the USSR accounted for more than 90% of their total imports of crude oil, iron ore, pig iron, and lumber, and more than 50% of their imports of hard coal, coke, and cotton. The USSR accounts for similar large shares of their other vital raw material imports. Moreover, the USSR supplies roughly 90% of their import requirements for wheat.

29. Eastern Europe is also heavily dependent upon the USSR as a market for its industrial output. This is particularly true for machinery and equipment - items which generally are not marketable in the West. In 1969, for example, roughly 60% of the machinery and equipment exported by Bulgaria and Hungary and about 50% of that exported by East Germany were delivered to the USSR. For Czechoslovakia and Poland, the shares were 37% and 34%, respectively. In individual industries a large scale of production often is made possible by sales to the USSR. For example, it is estimated that roughly 50% of the production of the Polish shipbuilding industry is exported to the USSR. Thus, to the extent that the recently concluded cooperation agreements are successfully implemented, the East European countries will become even more dependent upon the USSR as a market for their output.

30. The maintenance of Soviet hegemony over Eastern Europe continues to have its costs. The recent difficulties in Poland, for example, have made it necessary for the USSR to extend that country a credit of some \$1 billion, probably to be drawn down during 1971-75. This credit will allow Poland to step up its imports from the USSR of wheat, various consumer goods, and machinery and equipment to meet current Polish needs. In addition, the USSR has made available to Poland some \$100 million in hard currency for the purchases of food from Western countries. The USSR also will provide extensive economic assistance to Bulgaria during 1971-75, based upon a credit extension in December 1969 of 500 million rubles (nominally \$556 billion). Moreover, the USSR probably will have to continue to provide balance-of-payments assistance to Czechoslovakia, whose deliveries to the USSR reportedly continue to lag.

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Conclusions

31. Soviet trade with Eastern Europe will grow at an estimated rate of about 9% per year during 1971-75, continuing the high growth rate of recent years. The USSR will also continue to conduct more than half of its trade with Eastern Europe. East Germany, Poland, and Czechoslovakia are expected to remain the USSR's major trading partners.

32. With the exception of a greater role for machinery and equipment in Soviet exports, and perhaps a greater proportion of consumer goods in Soviet imports, changes in the commodity structure of Soviet-East European trade will be slight. Soviet deliveries of raw materials and semimanufactures - especially crude oil, iron ore, pig iron, rolled steel, cotton, and grains - will continue to account for the bulk of Soviet exports to Eastern Europe.

33. The planned increase in Soviet exports of machinery and equipment to Eastern Europe (estimated roughly to double in value during 1971-75 compared to 1966-70) partly reflects various Soviet - East European cooperation agreements which embrace, among others, the automotive, chemical, machine building, and electronics industries. These cooperation agreements result from the renewed efforts to move ahead in economic integration within CEMA.

34. The expected fulfillment - and in most instances, overfulfillment - of the five-year trade agreements will help ensure the maintenance of the USSR's economic hegemony over Eastern Europe. The USSR probably will increase its share of most of the Eastern European countries' foreign trade. Moreover, the USSR will continue to be their primary supplier of key raw materials and semimanufactures as well as the major market for their industrial output.

35. The maintenance of Soviet political and military domination over Eastern Europe continues to have its economic costs. This has been demonstrated in Czechoslovakia, where post-invasion aid was necessary, and more recently in the \$1 billion aid package for Poland in the wake of the workers' riots. In addition, the USSR continues to provide massive long-term economic assistance to Bulgaria.

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