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ECONOMIC COORDINATION AND INTEGRATION  
OF THE SOVIET BLOC  
1949-56

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FOREWORD

Since 1949 the USSR has made great efforts to improve cooperation with and among the European Satellites. These efforts have brought about a considerable degree of coordination of the Soviet and Satellite economies. The question is raised, however, whether the Soviet leaders are working only for coordination of the Soviet Bloc or whether, beyond that, they are attempting a more complete integration of the several economies. This report, in analyzing economic coordination and integration, evaluates the present state of coordination within the Bloc and treats the question of whether the Soviet leaders are expanding coordination into full integration.

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ECONOMIC COORDINATION AND INTEGRATION  
OF THE SOVIET BLOC\*  
1949-56

Summary and Conclusions

Although significant and rather steady progress has been made in integrating the economies of the Soviet Bloc since 1949, it is not anticipated that the Bloc will be fully integrated by 1960. It is concluded that the Soviet leaders will strive to perfect and extend present coordination of the European Satellite economies and to work toward the eventual goal of full economic integration of the Bloc.

The leading organizations working toward coordination and integration of the Soviet Bloc economies are the Council for Economic Mutual Assistance (Sovet Ekonomicheskoy Vzaymnoy Pomoshchi -- CEMA), the state planning commissions and offices, and the ministries of foreign trade of the USSR and of the Satellites. The key organization is CEMA, which has general supervision over planning in all Satellites. CEMA's position in the Bloc is that of an international agency serving as a clearinghouse for broad economic planning, production, and trade activities of the European Satellites. The members of CEMA are the USSR, Poland, Rumania, Czechoslovakia, Hungary, Bulgaria, Albania, and East Germany. Its operations are supervised by its Council, in which all member countries share representation. CEMA's international flavor is tempered, however, by the fact that in reality it is an agency carrying out the Bloc-wide economic objectives of the USSR. Consequently, Gosplan, the Council of Ministers, and the Central Committee of the Communist Party, USSR, function as organizations supervising and guiding CEMA.

The techniques employed by CEMA and related organizations revolve primarily around economic planning. CEMA, above all, is an organization coordinating plans among the European Satellites and between the Satellites and the USSR. This coordination is concerned mainly with the investment plans and production specialization patterns of the Satellite countries. In addition to this activity, CEMA, the state planning commissions, and the ministries of foreign trade all establish and guide Satellite trade policies.

\* The estimates and conclusions contained in this report represent the best judgment of [ ] as of 15 February 1956.



Progress in achieving the objectives of CEMA, as set forth in the original CEMA Agreement, \* has been uneven. Among these objectives, economic reconstruction of the member countries seems to have been realized or, at least, is well on its way. Steps also have been taken toward increasing the specialization of production within a Soviet Bloc-wide framework of division of labor and toward expanding the scope of standardization of products and materials within the member countries. These accomplishments are reflected by official statements as well as by existing production emphases whereby each member country specializes in producing certain commodities for itself and for the other members of the Bloc. The standardization of specifications, as well as of production and management processes is based chiefly on Soviet standards which are being employed widely throughout the Bloc. That part of the CEMA Agreement calling for complementary economies within the Bloc is being achieved through coordinated planning, division of labor, bilateral trade agreements, and efforts aimed at a coordinated price system.

Soviet control over the direction and composition of Soviet Bloc trade is manifested in Soviet delegations working in the CEMA countries, in the prevalence of inter-Satellite trade agreements, and through the establishment of regularized and specific trading procedures. In addition to controlling broad trade policies of the Satellites, the USSR supervises the intra-Bloc trade of certain specific commodities. These controls over Bloc trade effectively contribute to the coordination and integration of the Bloc economies.

A number of problems have developed since 1949 which have impeded efforts toward coordination and integration. Complete inter-Satellite cooperation is prevented by occasional competitive bidding for Western markets and by instances of trade monopolization in certain commodities. Soviet planning directives on the first long-term plans of the Satellites have at times been overambitious. Problems arising from confused Soviet directives and from failure to coordinate plan revisions between individual countries have been left to Satellite officials to solve. In addition, confusion and delays in shipping commodities among the Satellites and sporadic cancellation of delivery contracts, as well as shipping delays on the part of the USSR, have hindered the smooth growth of intra-Soviet Bloc coordination. An important problem facing Soviet leaders has been to gain the cooperation of all necessary officials in the CEMA countries for the carrying out of Soviet policies, which are sometimes in conflict with nationalistic sentiments. The pricing system is the least developed aspect of Soviet Bloc integration, as reflected in instances of price haggling between the Satellites, in price setting by individual countries, and in occasional inter-Satellite price discrimination. Failure to solve these problems may well slow down and possibly even prevent integration.

\* See Appendix A.

Although a single economic plan for the entire Soviet Bloc, in the sense of a single master plan, has not yet been created, the plans of all the Satellites are now being coordinated with one another and with the USSR with respect both to major policies and to production goals for certain key commodities. The plan coordination among Bloc countries has increased to such an extent that their economies may now be regarded as largely coordinated, and although it is not anticipated that the Bloc will be fully integrated by 1960, the eventual Soviet goal is, nevertheless, the full economic integration of the Bloc.

I. Introduction.

Coordination involves aligning various functions, usually of different organizations, and combining and orienting them toward a more or less specific goal in order to achieve the results of concurring and harmonious action. For the purposes of this report, economic coordination is defined as centrally supervised Soviet Bloc planning, production, and trade, with broad policy direction emanating from the USSR. Coordination is a first step in any movement toward integration.

Integration, a phase of development beyond coordination, involves uniting into one function, or placing under the close direction of a single organization, those functions which previously had been performed separately by independent units or organizations. For the purposes of this report, economic integration is defined as comprising the following factors: (1) coordination; (2) centralized planning and division of labor; (3) centralized allocations of raw and finished commodities; (4) the establishment of a coordinated and interlocked system of short- and long-term trade agreements; (5) the absence of harmful inter-Satellite competition; (6) a unified price structure and financial system; and (7) extensive standardization in production and services, including the use of Soviet standards and specifications and the extensive use of technical assistance programs throughout the Soviet Bloc.

Once all of these conditions are present, Soviet Bloc-wide economic integration would be an accomplished fact. For the functions of planning, production, trade, and finance, the Bloc could be considered as being an integral economic unit having unified economic goals and being directed by one authoritative organization.

Whether or not the Soviet leaders are striving simply for coordination of the economies or, beyond that, for integration is difficult to ascertain. Although it has been adequately demonstrated by a wide range of sources that full coordination is being attempted, the

situation is not equally clear regarding integration. The USSR may have 1 of 2 possible objectives in this latter respect -- complete economic integration or only partial integration. If Soviet objectives can be obtained through partial integration, the Soviet leaders will not risk incurring Satellite dissension by insisting upon more complete unification. Pragmatically, economic integration is not a goal in itself but is a means toward the accomplishment of other objectives. An apparent lessening in the movement toward integration, therefore, would not necessarily mean that integration has been lost sight of or is being abandoned. Such a lessening might reflect either satisfaction on the part of the USSR with progress already achieved in this direction or temporary concessions granted to the Satellites by the USSR. These concessions, however, would not be such as to impede seriously major Soviet goals for the Bloc.

Long-range Soviet economic goals for the Bloc include the further industrialization of the member countries and the development and raising of individual Satellite production without losing control over these countries. The Soviet leaders seek a significantly increased gross national product (GNP) for the Bloc and a stronger trading position with regard to the West while remaining relatively independent of it. They also desire, through the medium of a strong Bloc, to penetrate underdeveloped countries such as those in Asia, chiefly by the use of extensive economic aid. Finally, the Soviet leaders seek to strengthen the USSR by enhancing and consolidating both the internal and the external position of its government. Coordination and integration, it would seem, would contribute to the achievement of these goals.

A citation of short-range Soviet economic goals includes the construction of at least a rudimentary or primary base of heavy industry in each Satellite.\* This objective has Soviet Bloc-wide ramifications in the matter of raw material supplies, machine tool allocations, and long-range investments, for example. A further goal is the reduction of agricultural deficiencies in both the USSR and the Satellites. Moscow is also interested in a more closely coordinated trade system for the Bloc, especially to insure the importation of specific commodities that might have otherwise declined since the termination of East German reparations and the abolition of most of the joint Soviet-Satellite companies. Finally, the USSR could be partially relieved of some of the burden of industrializing the individual Satellites and Communist China by the establishment of a rigorously coordinated, and even integrated,

\* According to Communist doctrine, heavy industry is the material base of socialism, and machine building is the core of heavy industry. A "heavy industrial base" is a current Soviet term meaning a rudimentary or elementary level of machine building and primary metals industry.

Bloc economic system. Thus East Germany and Czechoslovakia, for example, are measurably contributing to the industrialization of Albania and China. These short-range goals, as well as the longer range ones, establish the need for at least a coordinated, if not an integrated, Bloc economic system.

Proceeding beyond mere coordination, the movement toward Soviet Bloc economic integration perhaps inevitably stems in part from the nature of past and contemporary Soviet Communism. If current Soviet dogma calls for a continued and unlimited political and economic expansion (at an accelerating rate) as being necessary for the over-all advancement of Communism, then Bloc economic integration can be considered an eventual Soviet goal. A citation of some Communist doctrinal statements supports this assumption. The world revolutionary doctrine, which is well established, has been reiterated as recently as 1955. 1/\* Lenin prophesied that, after a series of initial political and economic upheavals, nations would be merged into a great socialist unity. 2/ He also talked of a "free federation of nations in socialism" 3/ and of the necessity for "Russia" to surpass the advanced countries economically. 4/ Elaborating on this theme, Stalin noted that a union and collaboration of nations within a single world economic system is the material basis for world socialism. 5/ In the unfolding of the world revolution, he continued, a "socialist center" will form, attracting to itself all countries gravitating toward socialism. 6/ In 1935 a Communist handbook stated that a world dictatorship of the proletariat would be promoted when newly established proletarian republics enter into a "federal union" with existing proletarian republics. 7/ Although these statements of dogma are selective rather than inclusive, they do lay a doctrinal basis for future economic integration of the Bloc.

The economic advantages which would accrue to the USSR from a unified Soviet Bloc economy point up the significance for the West of movements toward Bloc coordination and integration. Expanded trade capabilities stemming from a planned division of labor and specialization of production in the various Satellites would result in better utilization of productive resources. This in turn would contribute to a higher degree of economic self-sufficiency for both the USSR and the Bloc. Developments in standardization of both specification and production processes throughout the Bloc, supported by a system in which major investments are planned from the USSR, also would contribute to greater Bloc economic efficiency. A growth in over-all GNP should also result from these developments.

The military significance of a unified economy on the relative capabilities and vulnerabilities of the Soviet Bloc would be such as to insulate it as a unit more effectively against both cold and hot war.

\* For serially numbered source references, see Appendix I.

tactics. Measurably increasing the economic strength of the Bloc would materially contribute to its military potential. Plans for the coordination and integration of the economies seek such an increase.

Politically, refining Soviet controls throughout the Bloc and making them more subtle is probably aimed at giving the impression of greater Satellite independence. Current Soviet deference being paid to certain economic peculiarities in various Satellites seems aimed at forestalling any significant Satellite resistance to Soviet programs. A successful combination of coordination and integration so as to attain the greatest degree of controlled Satellite and Bloc development without stimulating nationalistic or ethnic resistance would prove politically advantageous to the USSR.

At worst, very limited success in Soviet Bloc integration would cause the Satellite economies to be a little more responsive to Soviet demands. At best, a coordinated and at least partially integrated Bloc economy would present the West with a formidable and integrated system having the advantages of uniformity of objectives, single and concentrated leadership, greater manpower and financial resources, and mutually cooperating member units.

Achievements in economic integration of the Soviet Bloc to date cannot be accurately determined from . Data on volume and types of goods traded within the Bloc are not sufficient to permit the charting of day-by-day developments in integration. It is possible, however, to gain some picture of achievements in coordination from current information and to form an opinion regarding current and future trends toward integration.

## II. Organizational and Administrative Structure for Coordinated Economic Planning.

Soviet programs and activities are normally carried out with the help of special institutional structures. The main organizations dealing with Soviet Bloc coordination and integration in the USSR and in the Satellites are CEMA, the state planning commissions or offices, and the ministries of foreign trade. With respect to economic coordination and integration, the State Planning Committee (Gosplan) is superior in rank to CEMA, which works with the Ministry of Foreign Trade, USSR. In all these activities, CEMA is superior to the planning commissions and the ministries of foreign trade of the member countries.

### A. Organization and Structure of CEMA.

CEMA, which was organized in January 1949, was considered to be in part an answer to the West's Organization for European Economic Cooperation. It was also intended to facilitate trade among the Satellites, to increase their general productive capacity, and to contribute to their greater self-sufficiency. 8/ A more basic objective in the establishment of CEMA, however, was the coordination of Soviet

Bloc-wide planning and production so as to work out a division of production for the mutual benefit of members of the Soviet Bloc, to standardize and increase industrial production, to give grants and loans, and to make investments within the Satellites. 9/ At the time of its formation the signatory countries were the USSR, Poland, Czechoslovakia, Rumania, Hungary, and Bulgaria. Albania joined in 1949 and East Germany in 1950.\*

The known organizational structure of CEMA\*\* is simple. It consists of a Supreme Council, an Executive Committee (Secretariat) with a Secretary General, and principal sections for planning, investments and production, foreign trade, labor, finance and price policies, raw materials, and capitalist market analysis. Subordinate to CEMA are 28 bilateral councils for economic and technical cooperation which have a proliferation of subordinate commissions and committees. It is presumed that the main offices of these bilateral councils are located at the CEMA headquarters in Moscow. Finally, there are CEMA organizational outlets in the member countries. 10/

The top, or so-called "sovereign," body of CEMA is the Supreme Council. This Council, according to the basic CEMA Agreement, meets as often as necessary, but at least quarterly. The Council's membership is composed of the CEMA countries, each being represented by a person with ministerial rank and/or other representatives of the economic institutions. 11/ In accordance with Soviet organizational patterns, the Supreme Council is the over-all, official ruling body of CEMA, its role being similar to that played by the Supreme Soviet in the government of the USSR.

Real power within CEMA proper, however, is exercised not by the Council, but by the Executive Committee (Secretariat). This Committee, according to one report, even possesses the power "to deal with all questions related to economic cooperation within the Soviet Bloc." 12/ Located in Moscow, the Committee is permanent, and is under the chairmanship of a Secretary General, A. A. Pavlov, who has been identified earlier as a deputy minister of the Soviet Ministry of Foreign Trade. 13/

Representatives from the member countries to CEMA's Executive Committee in Moscow, as well as people working on CEMA matters in the various Satellites, are members of their respective planning committees, ministries of foreign trade, or other industrial ministries. This has been noted in the USSR, 14/ Bulgaria, 15/ East Germany, 16/ Czechoslovakia, 17/ Albania, Rumania, and Poland. 18/ In addition to the representatives from the state planning commissions and the ministries of foreign trade, specialists from various industries are brought into CEMA discussions from time to time when their particular industries are involved. 19/ The Executive Committee in Moscow has been reported as having a staff ranging

\* See Appendix A for the CEMA Agreement.

\*\* See Figure 1, following p. 8.

from a few to several thousand specialists. 20/ Such a sizable staff is necessary if CEMA is to perform the mission which is outlined in the basic CEMA Agreement.

Below the Executive Committee are the 28 bilateral councils (one for every combination of 2 member countries). These are supported by at least the following commissions:

Investment	Agriculture
Planning and Statistics	Foreign Trade
Industry	Finance
Transportation	Health
Labor	Scientific-Technical

Each of these commissions, in turn, is assisted by several committees, such as the Committee for Commodity Exchange under the Foreign Trade Commission 21/ and the Committee for Division of Labor of the Czechoslovak-Polish Commission for Industry. The number of these committees, accordingly, is great. 22/ The commissions meet to resolve specific questions regarding plan coordination. These organizations, subordinate to and loosely grouped under CEMA, comprise a vast and complex interlocking system of councils, commissions, and committees, all devoted to Soviet Bloc-wide economic coordination.

Each bilateral council is represented at CEMA headquarters in Moscow by a secretary general. These secretaries general discuss current problems, exchange experience, suggest proposals, and make decisions, which are then passed down through the bilateral councils to the subordinate commissions and committees and eventually to the member governments. 23/

Soviet representatives from CEMA are attached to the Satellite governments, and there are subdivisions of CEMA in these governments. 24/ CEMA representatives have been reported as located in the following state agencies:

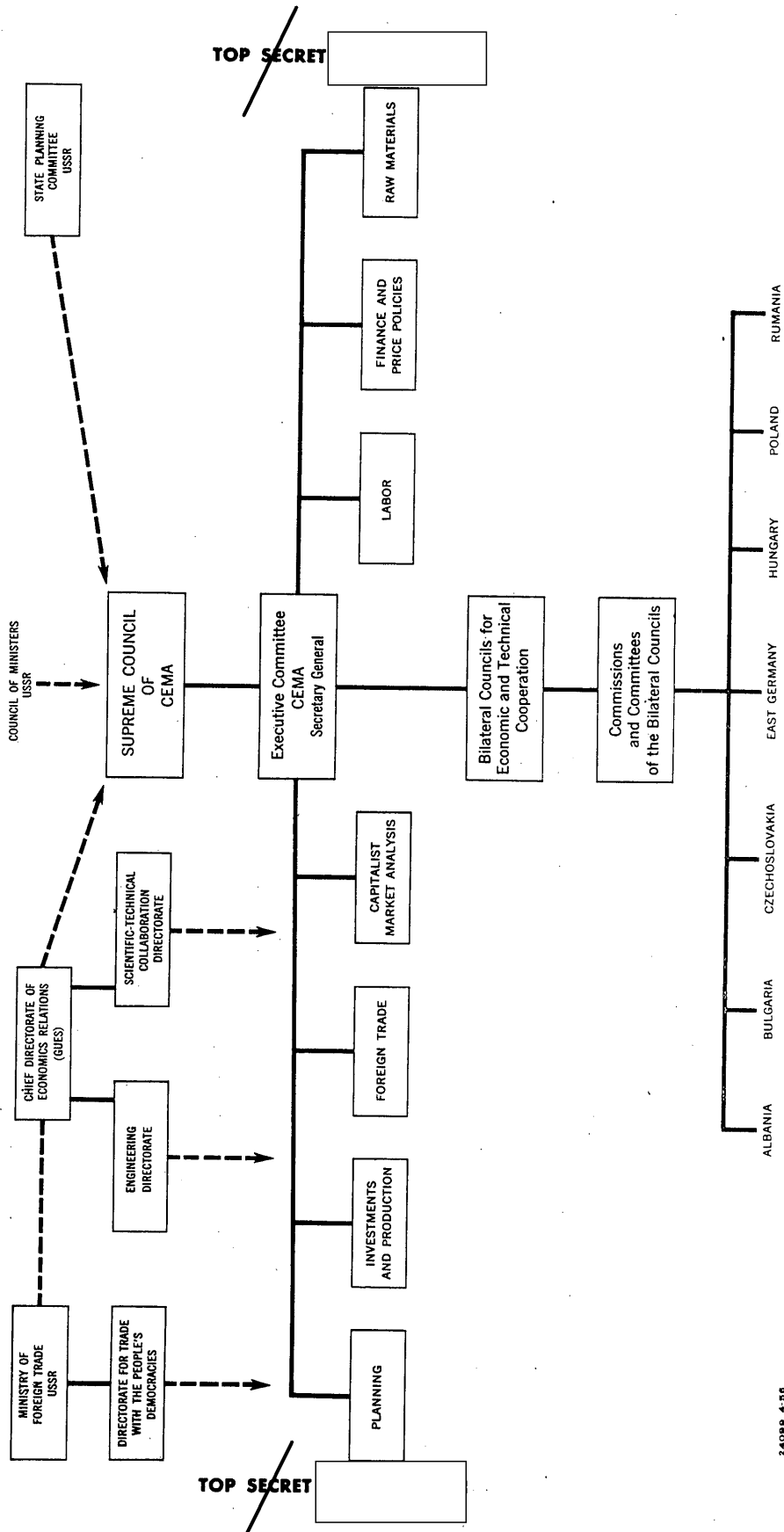
East Germany -- Office of Technical and Scientific Collaboration 25/

Poland -- Department of Cooperation with Other Countries in the State Economic Planning Commission 26/

Czechoslovakia -- Department of Economic, Scientific, and Technical Collaboration (HVTS) 27/

Hungary -- Committee of Economic Cooperation 28/  
(Office of International Economic Relations 29/)

# Organization of the Council for Economic Mutual Assistance (CEMA) in the Soviet Bloc



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FIGURE 1



It is assumed, therefore, that there is an organization within each Satellite government that is termed office of either Scientific and Technical Cooperation or of Economic Cooperation, which acts as the CEMA outlet within the respective countries. In addition, the state planning commissions and offices, as well as the ministries of foreign trade of the Satellites, maintain close working relations with CEMA.

B. State Planning Commissions and Offices.

The key economic planning agencies of the Satellite governments are the state planning commissions (State Planning Office in Czechoslovakia and National Planning Office in Hungary), which maintain working contact with the following Soviet agencies concerned with Satellite and Soviet Bloc-wide planning: CEMA, Gosplan, and the Ministry of Foreign Trade. With respect to Gosplan's role, Kaganovich in a recent speech called for an improvement in both the system and the practice of long-range coordinated Soviet Bloc planning. <sup>30/</sup> Such an improvement may have been one reason for the organizational change (in May 1955) dividing the Soviet planning organization into the State Economic Commission (Gosudarstvennaya Ekonomicheskaya Komissiya -- Gosekonomkomissiya) for short-range planning and Gosplan for long-range planning. Existing evidence of long-range Bloc plan coordination (1956-60) might support the assumption that the Soviet planning apparatus (or that part of it found in Gosplan) is now structurally more able to concentrate on coordinating long-range Bloc planning. In this connection a Department of Long-Term and Prospective Plans was created within the Polish State Economic Planning Commission in November 1955. Details of the working relations between the USSR and the Satellite agencies thus far are not precisely known. The exact relation of Gosplan to CEMA is unknown, but, since both agencies are concerned with Bloc planning, <sup>31/</sup> their working connection must be a reasonably close one.

Soviet experts assisting Satellite planners in the performance of their duties. <sup>32/</sup> This assistance would provide ample opportunity for the coordination of Satellite planning.

C. Soviet Bloc Ministries of Foreign Trade and the Soviet Chief Directorate of Economic Relations.

Close working relations also exist between CEMA and the ministries of foreign trade of the member countries. In addition, the Chief Directorate of Trade with the People's Democracies within the Ministry of Foreign Trade, USSR, <sup>33/</sup> deals with Satellite trade ministries, and the Chief Directorate of Economic Relations (Glavnoye Upravleniye Ekonomicheskoy Svyaz'u -- GUES), USSR, maintains representatives in Albania, Bulgaria, East Germany, Communist China, North Korea, North Vietnam, and possibly even in Yugoslavia, Burma, Afghanistan, and India. <sup>34/</sup> The main purpose of such representation relates to the Soviet technical assistance programs.

In the Satellites a somewhat similar pattern is assumed to prevail. The ministries of foreign trade are the organizations concerned with intra-Soviet Bloc trade. In two instances (Czechoslovakia and Bulgaria) the ministries have taken over most, if not all, of the activities relating to economic cooperation among the Satellites. 35/

K. I. Koval\* is the head of GUES, which was organized recently. [ ] indicates that this directorate was formerly under the Ministry of Foreign Trade but is now directly subordinate to the Council of Ministers, USSR. 37/ GUES, in addition to being concerned with technical assistance, was probably also assigned to work with the Ministry of Foreign Trade and with CEMA to attain more efficient and perhaps more rapid Soviet Bloc economic integration as well as to negotiate on defense commodities. The Engineering Directorate, which is subordinate to GUES, negotiates between countries of the Soviet Bloc and, presumably, with the West for procurement of defense commodities. 38/ In addition to the Engineering Directorate, there is a Scientific-Technical Collaboration Directorate which is similar to it and is probably subordinate to GUES. The Scientific-Technical Directorate was under the Minister of Foreign Trade before September, 1955 and was transferred to GUES after that date. The chief of this Directorate is A. N. Lavrishchev, \*\* who also doubles as a deputy chief of GUES. 39/

### III. Techniques and Mechanisms for Intra-Bloc Coordination and Integration.

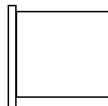
Broad policy planning, specific production assignments, trade and financial relations, and Communist Party influence on an inter-Satellite basis all become, at times, techniques for Soviet Bloc-wide economic coordination and integration. Specific instances of coordinated Bloc planning for the new 5-year plan (1956-60) reflect such techniques. The CEMA Agreement calls for coordination of the economies of the member countries within the general framework of planning as prepared by the CEMA Council.\*\*\*

Intra-Soviet Bloc trade relations as well as planning, reflect the major techniques for coordination and integration. Long-term intra-Bloc trade agreements, for example, are the eventual expression of long-term planning.

\* Koval is a former Deputy Chief of the Soviet Control Commission in East Germany and was mentioned in October 1955 as Vice Minister of Foreign Trade, USSR. He has signed for the USSR protocols for technical assistance to Soviet Bloc countries. 36/

\*\* Lavrishchev was Deputy Chairman of Gosplan in 1940 and for several years thereafter.

\*\*\* See Appendix A. In 1954 an official Soviet statement relative to intra-Soviet Bloc relations called for proportional development of the respective economies, socialist international division of labor, specialization and cooperation in production, and emphasis on heavy industry -- that is, machine building and metallurgy. 40/



A. Broad Policy Planning.

The Soviet government, through CEMA, has long been suspected of centrally planning -- at least in broad outline form -- the economies of the European Soviet Bloc countries. 41/ Some reports even consider all Satellite plans to be officially channeled through CEMA. 42/ In discussing central planning for the Bloc, two differing concepts are mentioned [redacted]. The first concept is that of the existence, or near existence, of a single or integrated plan for the entire Bloc. The second concept treats the plans of the member countries as separate, but "adjusted" or coordinated with one another.

1. Single Plan.

The "single plan" thesis considers the economies of the USSR and the European Satellites to be so linked with one another and so closely directed and controlled from the center as to constitute a single economic unit. Such a single plan would involve extensive standardization of production, common or mutually complementary currency, unified and well-coordinated production and trading plans, and a division of labor, with extensive specialization in production, all centrally controlled by the USSR.

[redacted] discussed the necessity for surveying [redacted] ment machinery for 1956-60 "within a single economic plan." 43/ Several other reports suggest integrated plans, if not a single Soviet Bloc plan. 44/



2. Coordinated Plans.

There is little doubt that individual Satellite plans are being coordinated on a Soviet Bloc-wide basis. The most widely quoted statement in this connection is that of the First Deputy Chairman of the Council of Ministers of the USSR, A. I. Mikoyan, \* in discussing a binding together of the Soviet economy with the economies of the "People's Democracies" (Satellites). Simultaneous with this announcement was a Czechoslovak article in 1949, which stated that members of CEMA will coordinate their economic plans and establish joint investment programs and joint output programs, will coordinate their industrial output, and will set up a division of productive forces. 45/ This reiterates the provisions of the basic CEMA Agreement.

\* Mikoyan has been both officially and unofficially associated with CEMA. It is believed that he is the Soviet leader at Presidium level concerned with CEMA activities and Soviet Bloc-wide coordinated planning.



Figure 2\* traces the plans of the Soviet Bloc members from 1947 through 1960. A number [ ] reported that all members of CEMA were clearing with one another at least their over-all plans for the 5-year period 1956-60, and the plans of all member countries are coterminous for this period with the exception of Bulgaria. 46/ The beginnings and endings of the several plans were charted, by direction, in such a manner as to make it possible for them to run concurrently. Even the present Five Year Plan of Bulgaria (1953-57) can well be coordinated with the rest of the Bloc on a yearly basis.

### 3. Decision-Making and Coordinating Powers of CEMA.

CEMA is involved at times in detailed planning for the Soviet Bloc countries and is [ ] reported to be completely coordinating 5-year plans for the Bloc. 47/ The extent of CEMA's intervention is indicated by statements that decisions of its Council are binding and are never questioned and that final Satellite plans can be changed only with CEMA's permission. 48/ CEMA's power was displayed when it held that Bulgarian payment for certain Czechoslovak exports was in conflict with a decision of the Council, that Albania could not sell oil, chrome, and asphalt to the West without permission from the Council, 49/ and that CEMA canceled an unused allocation to an East German locomotive plant because CEMA decided that this plant would no longer produce steam locomotives but would confine itself to the production of heavy diesel locomotives. Finally, [ ] CEMA forbade Hungary to produce textile machinery. 50/ Although Soviet leaders acknowledge that decisions are made officially by the Council of CEMA, they maintain such decisions are arrived at only with the agreement of the countries involved, and the Secretary-General of CEMA told Gunnar Myrdal of the Economic Commission for Europe that CEMA is entirely advisory and consultative in character. 51/

The following occurrences show the influence of CEMA on the planning for one Satellite, East Germany. All members of CEMA were scheduled to participate in a meeting which was provisionally planned for February 1955 for the purpose of coordinating economic plans for 1955. 52/ The East German delegation from the Ministry of Heavy Industry stayed in Moscow the first half of April 1955, where it submitted final documents for the First Five Year Plan, as well as the draft plan for the second 5-year period, for all chief directorates of the East German Ministry of Heavy Industry. 53/ Finally, a report [ ] noted that only general lines of policy for the development of heavy industry have been worked out for the Soviet Bloc countries as yet, because East Germany, Poland, and Czechoslovakia were unable to submit surveys to CEMA of their industrial capacities and raw material import requirements before the fall of 1955. 54/ A follow-up to these events occurred when the delegation, which included representatives of the East German Ministries of Heavy Industry, Heavy Machine Construction, and

\* Following p. 12.

# PLAN PERIODS OF THE USSR AND THE EUROPEAN SATELLITES

1947-60

USSR	FOURTH FIVE YEAR PLAN	FIFTH FIVE YEAR PLAN	SIXTH FIVE YEAR PLAN
Albania	TWO YEAR PLAN	FIRST FIVE YEAR PLAN	SECOND FIVE YEAR PLAN
Bulgaria	TWO YEAR PLAN	FIRST FIVE YEAR PLAN*	SECOND FIVE YEAR PLAN
Czechoslovakia	TWO YEAR PLAN	FIRST FIVE YEAR PLAN	SECOND FIVE YEAR PLAN
East Germany	TWO YEAR PLAN	FIRST FIVE YEAR PLAN	SECOND FIVE YEAR PLAN
Hungary	THREE YEAR PLAN	FIRST FIVE YEAR PLAN	SECOND FIVE YEAR PLAN
Poland	THREE YEAR PLAN	SIX YEAR PLAN	FIRST FIVE YEAR PLAN
Rumania	YEAR PLAN	FIRST FIVE YEAR PLAN	SECOND FIVE YEAR PLAN
	1947 1948 1949 1950	1951 1952 1953 1954 1955	1956 1957 1958 1959 1960

\* Originally a Five Year Plan (1949-53), but revised to end in four years (1949-52).

General Machine Construction and the State Planning Commission, flew to Moscow on 11 September 1955 to reach agreement with the Soviet officials on production tasks for East German machine construction. Then the East German delegation spent part of November and December coordinating the 1957 Plan with CEMA. Finally, [ ] in February 1956 mentioned the necessity for East Germany to formulate its Second Five Year Plan by 10 March 1956 in order to permit its coordination throughout the Soviet Bloc. 55/

In spite of certain reports indicating strong CEMA intervention, the precise extent to which Satellite planning in all its details is directed from Moscow and from CEMA is unknown. A number of reports indicate, however, that the production of various Satellite commodities is being planned in Moscow, and other evidence suggests that CEMA is involved in the planned allocation of a number of specific commodities. A list of 68 commodities whose production and trade are reported to be centrally planned in the Soviet Bloc in 1945-55 is shown in Table 1.\* In the case of three of these items, neither the planning agency nor its location is given. Three items are planned in Satellite capitals; 1 in Leningrad; 16 in Moscow (presumably either CEMA or Gosplan); and 18 in Gosplan, Moscow; and 26 are planned by CEMA.

A [ ] reported the CEMA planning process to be as follows: Bilateral and multilateral conferences are held between CEMA members to discuss speciality areas, such as coal, steel, and the like, and other problems of production, volume expansion, and trade. The conference results, in the form of protocols, are then sent to CEMA Headquarters and are incorporated in the yearly plans of the respective countries. Where a decision is not reached in the conferences, it is made by CEMA. CEMA is also empowered to make needed adjustments in the members' trade balances for key products and to alter the plans of individual countries accordingly. Each country then sends a delegation to Moscow to clear its final plan with CEMA. 56/

In addition to CEMA being mentioned as the motivating force behind individual Satellite planning, 57/ Soviet "planners" have been identified at Satellite capitals, assisting these governmental officials in preparing their plans. Although it is not known to what agency these "planners" belong, it must be either CEMA or Gosplan. In one instance a Soviet representative (not further identified) had signed the draft plan of the Satellite government, 58/ presumably to ensure its favorable treatment in Moscow.

#### 4. Defense Planning.

Only very limited information is available on the success of efforts to integrate the Soviet Bloc economies in planning, producing, and trading defense materials and equipment. There is evidence that,

\* Table 1 follows on p. 14.



Table 1

Commodities of Production and Trade Reported To Be Centrally Planned  
in the Soviet Bloc a/  
1949-55

Commodity	Country	Where Planned	Plan Period
Machine tool abrasives	Hungary	CEMA	1953 (?)
Penicillin	Poland and East Germany	CEMA	1950
Exports of Czechoslovakia	Czechoslovakia and Bulgaria	CEMA	1951
Machine building	East Germany and Czechoslovakia	CEMA	1953-54
Mining and metallurgy	Poland	CEMA	1953-54
Soviet Bloc steel and oil pool	Soviet Bloc	CEMA	1955
Steel plant	Hungary	CEMA	1951
Subway	Hungary	CEMA	1951
Aluminum and power	Hungary and Czechoslovakia	CEMA	1951
Natural gas	Rumania	CEMA	1951
Caustic industry	Hungary	CEMA	1951
Heavy and light industrial products	Soviet Bloc	CEMA	1956-60
General production items	Bulgaria and Czechoslovakia	CEMA	1954
Chemicals	Rumania and Czechoslovakia	CEMA	1955
Coal	Poland	CEMA	1949
Steel	Bulgaria and Czechoslovakia	CEMA	1951
Rolled materials	Bulgaria and Czechoslovakia	CEMA	1951
Cellular tissue	Bulgaria and Czechoslovakia	CEMA	1951
Aniline dyes	Bulgaria and Czechoslovakia	CEMA	1951
Cellulose	Bulgaria and Czechoslovakia	CEMA	1951
Airplane motors	Bulgaria and Czechoslovakia	CEMA	1951
Yarn	Bulgaria and Czechoslovakia	CEMA	1951
Tobacco	Bulgaria and Czechoslovakia	CEMA	1951
Grain	Bulgaria and Czechoslovakia	CEMA	1951

a. 59/





Table 1  
Commodities of Production and Trade Reported To Be Centrally Planned  
in the Soviet Bloc  
1949-55  
(Continued)

Commodity	Country	Where Planned	Plan Period
Engineering products	East Germany	Gosplan, Moscow	(?)
Hard coal	East Germany	Gosplan, Moscow	(?)
Coke	East Germany	Gosplan, Moscow	(?)
Oil	East Germany	Gosplan, Moscow	(?)
Pig iron	East Germany	Gosplan, Moscow	(?)
Steel in blocks and rolled steel	East Germany	Gosplan, Moscow	(?)
Copper and lead products	East Germany	Gosplan, Moscow	(?)
Heavy machine construction	East Germany	Gosplan, Moscow	(?)
Vehicles and ships	East Germany	Gosplan, Moscow	(?)
Electronics, mechanics, and optics	East Germany	Gosplan, Moscow	(?)
Chemicals specialities	East Germany	Gosplan, Moscow	(?)
Rubber and asbestos products	East Germany	Gosplan, Moscow	(?)
Heavy industrial products	East Germany	Moscow	1955
Superphosphate plant	Rumania	Moscow (Ministry of Chemicals)	1955
Agricultural products	Soviet Bloc	Moscow	1952
Industrial products	Soviet Bloc	Moscow	1952
Steel mills	Czechoslovakia	Moscow	1952 (?)
Power grid	East Germany, Czechoslovakia, and Poland	Moscow	1955 (?)
Power plant	Rumania and Czechoslovakia	Moscow	1953 (?)





Table 1  
Commodities of Production and Trade Reported To Be Centrally Planned  
in the Soviet Bloc  
1949-55  
(Continued)

Commodity	Country	Where Planned	Plan Period
Soda plant	Rumania and Czechoslovakia	Moscow	1953- (?)
Phenol plant	Rumania	Moscow	1951
Resin plant	Rumania	Moscow	1951
Imports and exports	Albania	Moscow	1949
Shipbuilding	Soviet Bloc	Moscow	1954-55
Electrical supply	Czechoslovakia	Moscow	1956-60
Shipbuilding	East Germany	Moscow	1955
Textiles and agricultural and food products	Rumania	Moscow	1955
Window glass	Bulgaria and Czechoslovakia	Bulgaria and Czechoslovakia	1954
Czechoslovak exports	Bulgaria and Czechoslovakia	Bulgaria and Czechoslovakia	1955-60
Sugar	Hungary and Czechoslovakia	Prague (?)	1953
Roller bearings	Soviet Bloc	Prague (?)	1953
Sztalinvaros Metallurgical Combine	Hungary	Leningrad	1951-55 (?)
Machines and equipment	Soviet Bloc	(?)	1955-60
Investment machinery	Soviet Bloc	(?)	1956-60

in addition to the presence of Soviet military advisers in the Satellites, 60/ some Bloc-wide coordination of military development and production exists. 61/ The Engineering Directorate of GUES, and presumably the counterpart directorates or departments in the Satellite governments, handle the procurement, allocation, and export of commodities for military end use and even some of the end items themselves such as military aircraft. These directorates or departments also at times control military equipment specialists. 62/ CEMA, in addition to the Engineering Directorates, has been identified in one analysis as influencing defense production and as having military advisers attached to the CEMA Moscow staff. 63/ The Warsaw Conference of May 1955 resulted in a Bloc-wide Treaty of Cooperation, Friendship, and Mutual Assistance and a Joint Military Command under Marshal Konev. 64/ This treaty should facilitate joint defense planning.

B. Detailed Production Planning.

[ ] frequently contend that, in addition to the coordination of broad policies, many details in the Satellite industrial production plans are coordinated on a Soviet Bloc-wide basis. 65/

A CEMA form\* was reportedly sent to the East German Bureau of Statistics for the purpose of listing the present condition of and the future plans for development of East German industrial production of major importance. 66/ The use of this form supports other evidence that monthly production statistics and records of consumption of the Satellites, as well as stocks on hand, are sent to CEMA. 67/ This information also indicates that the obligation in the CEMA Agreement, Article 9, to the effect that all members are to submit monthly production information to CEMA's Secretary General, is being complied with. 68/

The production tasks of a Satellite are reported to have been actually delegated by CEMA. 69/ A 1950 meeting in Budapest under CEMA auspices passed a resolution calling for proportional sharing of the manufacturing program between Poland and Hungary. 70/ A Prague spokesman expressed his interest in the production of 150,000 square meters of window glass following Bulgaria's offer "through CEMA" of some free production capacity. 71/ [ ]

[ ] in connection with "the free quota," 72/ possibly meaning available Bulgarian production capacity. Finally, unused production capacity for rolled steel has been offered by one Satellite to another. 73/ In this connection a [ ] informed the Bulgarian officials that for the purpose of reserving production capacity (presumably for 1954), notification was necessary by 20 June 1953. 74/ An authoritative role has been played by CEMA in the specific planning

\* This form was described as "prepared after a Bulgarian Pattern," thus suggesting Soviet Bloc-wide distribution of the form.

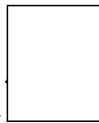
of coal in Silesia and chemicals in Rumania as well as the planning of penicillin, steel mills, textile machinery, passenger cars, coal, machine tools, and abrasives in other Satellites. 75/ CEMA reportedly has ordered East Germany to increase by 80 percent the production of its heavy machine building sector by 1960. 76/ This authoritative role in detailed planning is supported by a report contending that a Satellite's production tasks, once assigned, may not be changed without the approval of CEMA. 77/ CEMA has even been reported as considering a common Eastern European pool for steel; 78/ reminiscent of the Schumann Plan. Evidence exists that the annual production plan of East Germany is closely directed by key Soviet officials. Walter Ulbricht, Deputy Prime Minister of East Germany, disclosed in a recent speech that adjustment of the most important "control figures" between the USSR and the Soviet Bloc countries reflects "great initiative" on the part of the USSR. He also noted that "amended" control figures for East Germany resulted from arrangements with Bloc countries. 79/ These "control figures" are interpreted here to mean the key targets in the 1956 Plan. [ ] state that Moscow can amend, if necessary, and does approve the entire production plan of East Germany. 80/ [ ]

[ ] Berlin notified the Bulgarian Ministry of Foreign Trade of an East German request for manganese ore to the extent of 50,000 tons in 1956, 80,000 tons in 1957, and 100,000 tons in 1960. These figures were listed in the protocol by the Commission on Metallurgy. 81/ This Commission is presumably one of the numerous commissions functioning under the auspices of CEMA's bilateral councils.

Integrated planning has not yet progressed to the stage in which Satellite planning in all its minute details is performed in Moscow. This is shown by the fact that these governments occasionally confer among themselves on production problems of mutual concern without making any distinct reference either to Moscow or to CEMA. 82/ This procedure may not be inconsistent with integrated planning, however, since Soviet internal planning procedure permits a certain degree of local plan formulation -- with later review and amendment by higher governmental organizations.

### 1. Specialization in Production.

Communist leaders have recognized for a number of years the economic advantages inherent in production specialization according to the principle of comparative advantage. They have declared their intention to move toward an economically integrated orbit by having each country specialize, at least to some extent, in those commodities to which it is best suited by virtue of its natural resource base. For example, Otto Grotewohl, Prime Minister of East Germany, stated in a recent speech that it would be possible to encourage the production of certain products in the country in which the most favorable conditions exist. 83/ A recent Rumanian newspaper editorial maintained that the socialist division of labor and the



most rational use of resources constitute the new and higher level to which cooperation among the "People's Democracies" and between those governments and the USSR is rising. 84/ According to Kommunist, a socialist division of labor is developing under which all the "People's Democracies," composing a united camp, supplement each other economically. Each of these countries develops its economy in the light of its natural resources, domestic needs, and the demands of the entire world "Democratic" market. Without cooperation in planning it would be impossible to organize and maintain this division of labor. 85/ A Czechoslovak economic journal stated that, although it is not necessary for every nation to build up all branches of heavy industry, each nation should be able to develop that branch of heavy industry for which it has particularly favorable conditions. 86/

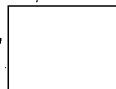
Finally, a recent article in Szabad Nep states that the socialist international distribution of labor makes it possible for each country to produce chiefly those products and to develop those branches of industry for which the conditions in each country are most favorable. Although creation of a base of primary materials and of a national heavy industry is necessary for each country because these constitute the basis for a healthy development of the entire nation's economy, there are distinct opportunities for specialization under the peculiar conditions existing in the several countries. 87/

All of these statements appeared in late 1954 or 1955. Although declarations of Communist leaders concerning specialization and division of labor among the Satellites have appeared from time to time in previous years, a veritable raft of such statements has been made during the past year. Another significant aspect of these declarations is that they relate not only to division of labor which has already taken place or is now taking place, but also to that which is to occur in the future.

There appears at first glance to be a contradiction in current Communist doctrine which states on the one hand that each member country of the Soviet Bloc must build a heavy industrial base but on the other hand that each must specialize in those commodities for which it is best suited by reason of its natural resource base and by virtue of Bloc needs. The Soviet explanation of this apparent contradiction would lie in three main points, as follows:

First, over-all Soviet economic goals are more important than pure "economic" efficiency, abstractly conceived. Thus a specific goal, such as development of machine building, might be pursued, irrespective of the cost factor, or a seeming loss might be allowed in developed specialization.

Second, each country's long-range development and strength must be taken into consideration. Some Soviet Bloc specialization perhaps may be sacrificed for the long-term goal of strengthening each country's industrial development. Each country



thus would have an industrial safety factor of at least a limited heavy industrial development to rely upon in a war situation in which it might be severed from the Bloc.

Third, the establishment of a rudimentary industrial base in each country, seemingly contrary to specialization, may in the long run facilitate specialization by enabling each country to become more flexible in its production abilities and thus better able to handle various central production assignments. This would stem from the fact that each country would possess a more ramified and widely distributed industrial capacity. Current plans call for the various countries to specialize with respect to capacity and resources within the broad framework of a heavy industrial base.

a. Existing Specialization.

Since World War II, and especially since the modifications in the "new course" in early 1955, each of the Satellites, as noted above, has sought, to a greater or lesser degree, to provide itself with some form of a heavy industrial base, if such base has not been developed previously and to enhance its specialization in the production of certain commodities. Although some of this specialization has resulted of necessity from the type of natural resources base with which each country is endowed, more of it has resulted from deliberately planned development. Although it is not possible to quantify precisely the degree of specialization already developed among the Satellites, information concerning trends in specialization and the types of products specialized in can be obtained by examination of existing commodity production patterns, by analysis of trade patterns, and by consideration of known instances of deliberately planned specialization.

b. Production Distribution Patterns.

In view of the relatively short period of time that Satellite production has been influenced by national planning and by inter-Satellite coordination, broad patterns of commodity distribution among the Satellites should reflect in part the specializations inherent in the natural resources base as well as in the historical pattern of industrial development of each of these countries. The historical production patterns\* may provide insight into the patterns that may be expected to emerge from future coordination and integration.

c. Trade Patterns.

Exports are generally indicative of production specialization in the exporting country. If a country's exports increase faster than its GNP during a given period, the inference can be made, other factors remaining constant, that specialization in the production of export commodities has been increasing during

\* See Appendix C.

the period, since an increasing proportion of the country's total output is made up of exportable commodities. If the necessary statistics were available, it might be possible to provide in this way a rough quantitative measure of trends in specialization in each Soviet Bloc country in recent years.

it has been necessary to use figures for total foreign trade turnover (exports plus imports), though admittedly their use makes the attempt at measurement of specialization trends even more crude. Table 2 gives the indexes of Satellite (except Albania) GNP, total world trade turnover, and total Sino-Soviet Bloc trade turnover for 1953 compared with 1949. In view of the above premises, these figures suggest that there was little or no increase in specialization in trade commodities in Czechoslovakia as reflected in its world trade turnover, although its intra-Soviet Bloc trade turnover suggests some increase in specialization. The figures suggest a considerable growth in commodity specialization in the other countries. The great increase in the trade turnover of East Germany may reflect an ending of its reparations payments to the USSR.

Table 2

Indexes of Satellite Gross National Product  
Total World Trade Turnover  
and Total Sino-Soviet Bloc Trade Turnover a/  
1953

1949 = 100

Country	Gross National Product	Total World Trade Turnover	Total Sino-Soviet Trade Turnover
Bulgaria	118	127	133
Czechoslovakia	123	118	202
East Germany	156	329	431
Hungary	133	171	284
Poland	132	159	257
Rumania	112	146	150

a. Figures computed from an earlier CIA report. 88/

Since the principal commodity exports of each Soviet Bloc country provide an indication of the production specializations which the country has been developing, the exports would be useful in establishing an informed guess concerning the specializations of each country in the coming 5-year plan period. Statistical breakdowns of the total exports of each country according to commodity, however, are not available. Accordingly, only general statements can be made



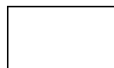
concerning each country's exports. The exports of Bulgaria are primarily agricultural commodities and certain minerals. 89/ The exports of Czechoslovakia are primarily certain types of industrial machinery and equipment, chemicals, textiles, and other manufactured products. 90/ The exports of Hungary are bauxite and aluminum products. 91/ Other information indicates that Hungary also exports machine tools, electrical equipment, motor vehicles, railroad equipment, and chemicals. 92/ The exports of East Germany are primarily various kinds of heavy machinery and machine tools. 93/ The exports of Poland are coal and coke, certain metals and their products, rolling mill products, and various kinds of manufactured goods. 94/ Finally, the exports of Rumania are petroleum and its derivatives, as well as agricultural products, lumber, and wood products. 95/

d. Planned Development of Specialization.

There are a number of known instances of planned specialization in one or another of the Satellites. The development of the aluminum industry of Hungary is probably the foremost example. Considerable specialization has also taken place in the chemical industry and will no doubt be increased as a result of efforts which are being made among the major chemical-producing countries to coordinate planning for the industry. 96/

In the past several years there have been many reports of collaboration occurring among various Satellites in the field of industry in addition to those in foreign trade. Agreements which have been signed between Hungary and Poland and between Hungary and Czechoslovakia are designed to bring about a more rational utilization of the available metal rolling equipment -- the agreements allocated production of different kinds of rolled metals among the three countries. 97/ Also, attempts reportedly were made to coordinate iron and steel production among Hungary, Poland, and Czechoslovakia. 98/

Development of specialization among the Satellites has been furthered greatly by a series of bilateral production specialization agreements and similar protocols signed among the Satellites during 1954-55, presumably under the guidance of CEMA. On 16 February 1954 an agreement on cooperation in the field of light industry was signed between East Germany and Poland, and on 21 July 1954 the former signed a similar agreement with Czechoslovakia. The latter agreement provided that, among other things, all lead pencils would be produced in Czechoslovakia and all office machines would be produced in East Germany. 99/ On 4 July 1954 a similar protocol was reportedly signed between East Germany and Poland for the chemical industry, in which it was agreed that East Germany is to develop its chemical industry on a lignite basis and that Poland, though completing its present lignite combine, is to develop its industry on a pit-coal basis, each country agreeing not to develop those industries in which the other is to specialize. Such production specialization agreements are to be an integral part of the new 5-year plans of the Satellites. 100/



Other arrangements have been made, and commissions for economic cooperation relating to specific industries have been set up. A Government Commission for Economic Cooperation in the Chemical Industry has been established between Poland and Czechoslovakia. 101/ There is a Commission for Economic Cooperation in the Field of Light Industry between East Germany and Bulgaria. 102/ In May 1955 a protocol was signed between East Germany and Bulgaria to cover economic cooperation in the field of machine building. 103/ From 4 to 14 March 1955, negotiations were carried on between Hungary and Bulgaria concerning cooperation in agriculture and the food industries. 104/ Finally, it was reported that in 1954 a commission was formed to organize coordination between East Germany and other Satellites with regard to development and production of measuring equipment and electromechanical control gear. One of the tasks of the latter commission will be to decide which country will produce which type of equipment. A similar commission had already been set up for the coordination of machine tool production. 105/ Production of ball bearings has been similarly coordinated and allocated. 106/

A statement by I. Dudinskiy in 1954 is concerned with cooperation between the USSR and the Satellites. In the prospective plans of the Satellites a division of labor permits each country to devote part of its production to satisfying the need of other Satellites. Special attention is devoted to those branches of heavy industry for which favorable local conditions are applicable. 107/

e. Specialization in the Sixth Five Year Plan Period.

Various statements have been made by Satellite officials concerning the branches of industry in which each country is to specialize during the present 5-year plan period -- specializations which are to be developed and carried out within the coordinated Soviet Bloc-wide plans. In addition, two other statements are of considerable significance. An article in Pravda pointed out that "disproportions" had developed in the economies of the European Satellites as a result of their efforts to build up a heavy industrial base in each country. By "disproportion" the author meant that the growth of agricultural production was insufficient to satisfy the growing needs of the workers. These disproportions were liquidated by regrouping capital investments; such regrouping, however, was not considered a retreat from the primary development of heavy industry. 108/ Present and prospective 5-year plans may further correct these disproportions, either by concentrating production on agricultural products in those Satellites with primarily rural economies (Albania, Bulgaria, and Rumania), or by deemphasizing heavy industry in favor of agriculture in some of the other countries.

Announcements of new 5-year plans, and even the yearly plans of the Soviet Bloc countries, may reflect the construction of a heavy industrial base in each country. In East Germany, for



example, the 1956 Plan calls for an increased investment in machine building,\* compared with 1955, of 187.1 percent and an increase in heavy industry (presumably taken as a whole) of 48 percent. 109/ Although it is acknowledged that East Germany is one of the more industrially advanced Satellites, these significant increases reflect earlier announced Communist objectives of a current accent on heavy industry as well as an expected specialization in machine building.

Specialization of production in the European Satellites in 1954-60 is shown in Appendix D, Table 5.\*\* The table lists four categories, as follows: (1) reported specialization for 1955, (2) planned specialization for 1956-60, (3) production patterns for 1954, and (4) export patterns for 1954. The data in this table are necessarily incomplete, and, in a few instances both categories 1 and 2 are taken from the same source. Making allowances for these limiting factors, it is concluded that each Satellite not now industrialized will build a rudimentary heavy industrial base, and during 1956-60, each will specialize in at least the following commodities for purposes of Soviet Bloc-wide coordinated production:

Hungary -- aluminum, bauxite, machine tools, transportation equipment, and agricultural products.

Albania -- agricultural products and mining industry.

Bulgaria -- agricultural products and mining industry.

Rumania -- oil and oil derivatives, agricultural products, lumber, and wood products.

East Germany -- machine building, machine tools, precision instruments, transportation equipment, chemicals, and derivatives.

Czechoslovakia -- heavy industrial production machine building, machine tools, agricultural products, chemicals, aircraft, and certain textiles, and perhaps some transportation equipment.

Poland -- mining, metal products, coal and coke, agricultural products, transportation equipment, chemicals, leather goods, and certain manufactured products.

\* In Communist doctrine, machine building is the core of heavy industry.

\*\* P. 45, below.

2. Standardization in Production.

Within the USSR, extensive efforts have been carried out to standardize\* industrial production and make it more uniform. Since complete uniformity has not been achieved, there are different types of standards which vary in scope and legal status. The most important and widely known of these are the State All-Union Standards (GOST's). In the USSR these GOST's have the status of law and must be adopted by all appropriate organizations. In the planned exportation of many Soviet standards to Soviet Bloc countries, the GOST's play a leading role.

Standardization is a prerequisite for Soviet Bloc integration and is even a partial requirement for coordination.  discloses a number of commodities which have been or are in the process of being standardized, on either a Bloc-wide, a Satellite-to-Satellite, or a Satellite-to-USSR basis. Although some countries are setting or continuing their own standards where needed for certain commodities not applicable to the Soviet standards, the latter are becoming the leading pattern for Bloc-wide standards.\*\*

Standardization, once entered into, is seemingly irrevocable. Industrial standardization is a long-term process and, by adopting uniform Soviet Bloc standards, each Satellite is therefore committed to a Bloc industrial orientation for a considerable length of time. The applicability of this orientation for long-term coordination is to be noted in assessing future integration.

The participation of CEMA in Soviet Bloc standardization is little known, although it seems to be expressed in the implementation of Soviet standards in the Satellites as well as through the medium of Soviet technical assistance. The complementary side of standardized commodities is that of standardized processes and techniques. In this connection an Hungarian press report names CEMA as being instrumental in the coordination of standardization in production as well as in transportation. 110/ In November 1951 an inter-Satellite agreement was signed for a standard tariff in through traffic and for mutual use of freight cars. 111/ In 1954 a conference of five Satellites was held in Budapest to coordinate schedules of passenger cars in international traffic. 112/

\* Standardization is normally considered to be the establishment of specific characteristics and qualities which determine the precise proportions and quality of certain manufactured articles. (The Soviet standards, or norms, called GOST's, are examples of these.) In this report, standardization will apply to industrial and production processes and management as well as to commodities and articles.

\*\* See Appendix E.



Czechoslovakia, Poland, and East Germany have been actively introducing Soviet standards.\* 113/

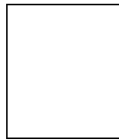
The extensive part being played by technical assistance in standardization, within the framework of CEMA's guidance, should not be underestimated. A number of Soviet specialists have acted as advisers to all Soviet Bloc countries. In addition, technical specialists from the more industrially advanced Satellites are sent into the more rural ones to advise on technical problems. A great deal of technical information is exchanged among the Satellites and between the Satellites and the USSR. In his speech before the XX Party Congress, Khrushchev announced that the USSR is helping the Satellites build 391 enterprises and more than 90 separate workshops and installations. 114/ There have been even reports of Soviet "experts" in these countries who were actually sent to learn technology rather than to impart technical advice. 115/ The impact on Bloc standardization of large numbers of visiting technical advisers can be readily appreciated. The additional factor of indirect control arising from Soviet aid is no small consideration in the over-all technical assistance program.

Efforts to develop standardization are not limited to commodities and processes. Plans for railroad and air transportation seek to standardize passenger and baggage service. Uniform rates for transit traffic within the Bloc have been established and agreements between all Bloc countries prescribed uniform rail freight and passenger regulations. In July 1955 there were reports that transit permits for Satellites to ship goods to other Satellites through the USSR were no longer necessary. 116/ The commodities and processes reported as standardized or being standardized in the Soviet Bloc in 1952-55 are shown in Appendix E, Table 6.\*\* This table indicates that much progress has been achieved in Bloc standardization, though the system has been neither completed nor perfected.

\* The Central Committee of the East German Communist Party and other leading East German bodies have suggested the introduction of Soviet GOST norms for a long time. The USSR, however, advised East Germany to continue her membership in the (all-German) German Committee on Norms (Deutscher Normenausschuss -- DNA) and to refrain from using exclusively Soviet norms, in order to avoid curtailment of her trade with Western countries. East German scientists and technicians have been participating in the DNA's efforts to establish German industry norms (Deutsche Industrie Norm -- DIN). Two-thirds of the members of the Presidium of the DNA are representatives of West Germany, and one-third are representatives of East Germany. The DNA represents Germany in the International Organization for Standardization (ISO). The committees of the ISO include both East and West German representatives.

\*\* P. 49, below.





C. Trade Relationships.

The intensification and regulation of intra-Soviet Bloc trade transactions have an intimate and direct relation to economic coordination and integration. There are three main types of intra-Bloc economic collaboration -- the technical-cooperation agreements, the general economic agreements (relating to production planning), and the trade agreements. Since only the latter type is considered to be an instrument specifically for trade, it is the only one of the three that is discussed in this report.

As the regulation of intra-Soviet Bloc trade increases, one report concludes, foreign trade ministries of the Bloc countries more and more closely resemble internal wholesale trading agencies administering established policies. 117/ By controlling reparations payments, directing joint corporations, dominating the sources of certain materials and equipment, and controlling the composition of trade through the bilateral agreements the USSR actually has been able, in addition to regularizing trade, to direct the pattern of production in some of the Satellites. 118/ Since the Satellites are often dependent upon the USSR for imports of raw materials, the simple procedure of regulating the exports of Soviet raw materials to the Satellites by the USSR has to a certain extent the effect of regulating Satellite production. 119/ This regulation in the chemical industry, for example, shows that intra-Bloc trade relations themselves become Bloc-wide coordinating mechanisms. 120/ The position of the USSR as middle-man in intra-Bloc shipments thus permits it to exert a dominating influence on Satellite industrial development. 121/ The importance of a "correct" attitude in trade relations between the USSR and the Satellites is reflected by an incident in which Soviet leaders are alleged to have purged Bulgarian officials in 1949-50 for demanding more favorable trade terms from the USSR. 122/

1. Organizational Structure.

Intra-Soviet Bloc trade is carried out through the ministries of foreign trade of the respective countries chiefly by means of bilateral agreements and through the trade sections of embassies, state foreign trade enterprises in the form of joint-stock associations, and companion associations with limited responsibility. 123/ The joint-stock companies, although legally independent organizations, are in fact subordinate to their respective ministries of foreign trade. 124/

The organizations conducting trade in the Satellites are similar to those in the USSR. In Albania there is a Ministry of Trade, in East Germany a Ministry of Foreign and Domestic Trade, and in each of the other five Satellites there is a Ministry of Foreign Trade. In each of these countries, with the possible exception of Albania and East Germany, there is a directorate or department similar in function to that of the Engineering Directorate in the USSR which works closely with the Ministry of Foreign Trade.



In each of the Foreign Trade Ministries of Poland, Czechoslovakia, Hungary, Rumania, and East Germany there is a Directorate or Department of Trade with the "People's Democracies." 125/

A supplementary trade organization, the Chief Directorate of Soviet Property Abroad (Glavnoye Upravleniye Sovetskim Imushchestvom Zagranitsa -- GUSIMZ), USSR was established after World War II to direct the Soviet-Satellite joint stock companies for purposes of economic penetration of the Satellite governments and of Austria, chiefly for the purpose of supplying goods to the USSR from these countries. 126/ In mid-1953, GUSIMZ was removed from direct subordination to the Council of Ministers, USSR, and was placed under the Ministry of Foreign Trade. 127/ By 1955 the activities of GUSIMZ virtually had reached a standstill. 128/ The economic exploitation and penetration carried out by GUSIMZ through the joint stock companies was greatly diminished when most of these companies were returned to the jurisdiction and control of their respective countries following their purchase from the USSR, in effect, by these Satellites. These activities, once the scope of GUSIMZ, are no doubt adequately handled for the USSR through CEMA, the Ministry of Foreign Trade, and the Party apparatus.

## 2. Operational techniques.

Operational techniques in planning and directing intra-Soviet Bloc foreign trade are rather extensive and complicated. In the light of CEMA's mission, it is believed that this organization generally supervises intra-Bloc trade and even controls part of it directly. Some [redacted] report CEMA to be planning the entire trade volume of the Bloc. 129/ Such complete planning is questionable, however, [redacted]

[redacted] 130/ It should also be noted that Satellite governments at times do negotiate with one another on various commodities for trading with no apparent reference made either to Moscow or to CEMA. 131/

Nevertheless, on balance, CEMA apparently has a close and intimate relation to the planning and guiding of Soviet Bloc trade. This is evidenced by the necessary association of planning with trade, as well as by the number of meetings and agreements between CEMA members dealing with intra-Bloc trade problems. 132/

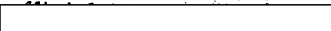
CEMA takes a significant part in establishing broad policy lines of development in foreign trade for the Soviet Bloc, as well as in planning specific techniques of trade. A [redacted] CEMA document lists such techniques as operational settlements,



bookkeeping, and customs accounting to be used by foreign trade representatives in their transactions. The document also contains specific procedures for conducting foreign trade transactions and for listing the required information to be kept in the files of the trade organizations. 133/

Other evidence ascribes to the Soviet government a considerable role in such varied activities as providing information to Hungary to permit it to bid on a plant for manufacturing superphosphate of calcium for Uruguay, setting Soviet Bloc timber export prices to the West, and approving protocols for intra-Bloc bilateral and trilateral trade agreements. 134/

3. Trade Agreements.

A significant device used by the Soviet government in controlling long-range plans of the Soviet Bloc countries is that of control over long-term trade agreements. A basic element in continuous CEMA control over trade is the regulation and general supervision of the extensive bilateral trade agreements, or treaties, which determine both the system of trade and its manner of payment. 135/ These agreements are usually made between the ministries of foreign trade of the respective countries, and they cover specific commodities at fixed ruble prices. 136/ Although bilateralism in intra-Bloc trade is the norm, there have been some instances of trilateral agreements. 137/ Finally, there appear to be an increasing number of long-term agreements, 138/ probably in support of the long-range economic plan for 1956-60. One report lists East German long-term trade agreements which have been signed with all CEMA members except Bulgaria for the period 1952-55. 139/ No evidence is available that any long-term agreements have been consummated for the 1955-60 period. 140/ An  describes the long-term trade agreements as the chief instruments for coordinating the economic plans of the signatory countries. 141/ These agreements reportedly fix only the key products to be traded, not the specific volume of trade for individual years. 142/ The agreements are under continual amendment in order to alleviate recurring problems. 143/ Payments for the commodities are handled through the respective state banks. The agreements specify the type of goods to be exchanged. The actual trade is carried out through the foreign trade organizations, each of which is authorized to trade a certain type of commodity according to a specific list. Thus the trade organizations in the particular countries sign contracts calling for specifications, variety, volume, prices, terms of payment, and terms of delivery. The contracts are backed up by the concurrence and approval of the ministers of foreign trade of the respective countries. In cases of complaints, an arbitration board, sitting in the capital of the respondent in the complaint, supposedly resolves the controversy. 144/





The method of payment is specified in contracts following up each intra-Soviet Bloc agreement. Listed in these contracts are the price of the goods, the manner in which accounts are balanced, the service charges, and the exchange rate. 145/ The contracts also provide for central bank accounts in the names of the ministers of foreign trade, to which all transactions are charged. 146/ Payment for specific transactions is made within 10 days following receipt of the appropriate documents and goods on the basis of the invoices. Any dispute over quality of goods may defer partial or total payment. The money is handled through the state banks of the respective countries by means of the inkasso form. The exporting organizations receive their payment upon presentation of the appropriate documents. 147/ The trade agreements usually call for trade deficits to be balanced quarterly or semiannually through shipments of goods or, occasionally, cash payments. 148/

Although Satellites have cleared their trade accounts independently, without assistance from Moscow, 149/ frequent mention is made of Soviet intervention in intra-Soviet Bloc financial transactions, chiefly through the granting of long-term credits by the USSR to the member countries of the Bloc. 150/ Khrushchev announced that long-term credits have been given by the USSR to the Satellites totaling 21 billion rubles. 151/ By the use of these credits, the USSR achieves a measure of control over the respective economies by specifying end use and by establishing the method of repayment. 152/

D. Financial Integration.

1. Pricing.

Financial integration would require the establishment of a well-coordinated and uniform Soviet Bloc pricing system. The Satellites set their own prices, however, with or without the intervention of Moscow. There are, for example, instances of price negotiation between Satellites, even to the extent of occasional haggling. 153/ The problem of price confusion between members of the Bloc caused in part by individual Satellite price determination could be alleviated either by the intervention of Moscow, because it has the final word in establishing or at least influencing prices, or by a Bloc-wide agreement to charge similar prices to all CEMA members. The latter alternative is probably the one favored by officials of the Bloc. 154/

With respect to uniform Soviet Bloc pricing, there has been mention of a "Democratic Soviet Bloc World Market Price" as the standard for new articles. Reference has also been made to the "official price principle," that is, that "Democratic" world market prices are also understood to be world market prices. Within the Bloc a protocol agreement on a single direct freight rate has been signed, and there is evidence of agreed-upon Bloc price limits. 155/ There is a report of a documented price list for Bloc



trade, supposedly to provide a measure of Satellite independence from world (Western) market prices. 156/ CEMA's role in coordinated pricing is not clear. There have been references to CEMA's indirect participation in price setting, 157/ and to advantageous credits with a normal interest rate of 1.5 percent being granted in the form of goods to the members of CEMA by the USSR. 158/ It could well be assumed that CEMA performs the function of an arbiter and perhaps that of an over-all directing authority in questions of Bloc prices, at least with respect to certain commodities.

2. Satellite Payments to CEMA.

According to the basic CEMA Agreement, the USSR was to contribute 50 million rubles to the CEMA funds, and 10 million rubles were to be contributed by each member country. 159/ [ ] indicate that member countries pay regular dues to CEMA, make payments to CEMA for technical assistance, and pay the expenses of their representatives to CEMA in Moscow.\* According to [ ] the initial payment of Bulgaria was 405,965 rubles, and subsequent payments, possibly for yearly dues, were 347,998 rubles in 1952 and 116,200 in 1954. 160/ Czechoslovakia paid 5,225,000 crowns for dues for 5 years, 161/ and Albania has been making quarterly payments of 33,200 rubles. 162/ No specific pattern appears, however, and [ ] it is impossible to determine either the annual or total contributions of the member countries. [ ] however, did estimate the annual contribution of East Germany at 300,000 rubles. 163/

E. Communist Party Influence.

The influence of the Communist Party on coordination and integration stems chiefly from the normal function of the Party apparatus. By its control over all problems within the Soviet Bloc and through major policy determination the Party leadership sets the main patterns for coordination and integration and directs developments in this direction. Bloc-wide unanimity of Party policy coupled with the ramified Party apparatus enable the Party effectively to transmit economic policies to the Satellites.

Although the precise role played by the Party in coordination and integration is not known, [ ] contends that instructions from CEMA to the Satellites are frequently transmitted through Party channels. 164/ Other evidence confirms the effectiveness of this Party transmission belt, and [ ] stated that when in doubt concerning Soviet desires, the Minister consulted with Soviet propaganda officials stationed in Bucharest. 165/ In view of recent Soviet attempts to refine their methods of control within the Soviet Bloc and to achieve more of an air of Satellite independence, this Party transmission for coordination and integration matters may be made even more permanent. 166/

\* See Appendix F for reported payments by the Satellites to CEMA.



IV. Prospects for Coordination and Integration.

Many obstacles must be overcome before complete economic integration of the Soviet Bloc is attained. Although Soviet leaders are generally successful at solving problems within their area of control, it is entirely conceivable that formidable obstructions have forced and will continue to force compromises in Bloc integration.

One of the obstacles to smooth coordination has been an element of competition between individual Satellites, such as that in exploiting export markets outside the Soviet Bloc. Reports show competitive bids by Satellites, the failure of one Satellite to inform another of external export bids, and the monopoly of trade in certain commodities. 167/ This indicates imperfectly coordinated planning. There is also the problem of inter-Satellite competition for specific materials in short supply. Carefully planned material allocations may alleviate but cannot be expected to solve the problem of internal Bloc shortages.

Other obstacles that coordination faced in the past were at the planning level. Because of a continuing autarkic orientation among the Soviet Bloc countries and insufficient experience in the field of intra-Bloc planning, early efforts at coordination were frequently unsuccessful. As a result, unduly ambitious programs were forced on some Satellites by CEMA, investment plans were not coordinated, and export commitments essential to the plans of the Satellites were not fulfilled. There were cases of plan revisions in one country which were not coordinated with the plans of other countries, leading to mounting confusion in the planning of production. 168/ Centrally planned specialization also may be hindered by nationalistic sentiments still persisting within the Satellites.

Delays and even failures of one Satellite or of the USSR to fulfill planned shipments to another Satellite, following from weaknesses in coordinated planning, create inevitable production bottlenecks for the recipient country. 169/ For example, failures have occurred in the shipment of construction blueprints and of plant and construction equipment, and there have been instances when an excess number of railroad cars was sent to a particular destination. 170/ [ ] insufficient export orders from the USSR for an East German plant, sudden cancellation by the USSR of a trade agreement with East Germany, lack of cooperation between two Satellites regarding a manufacturing process, excessive bureaucracy within CEMA, refusal by an East German ministry to submit production information to the Soviet trade delegation, and disagreements and contract violations between member countries. 171/ There also have been [ ] that CEMA has forced Satellites to export items needed in their own economy. Thus Poland was forced to overexport chemicals needed for Polish industry. 172/



Movements toward Soviet Bloc integration thus have faced recurring obstacles which apparently have forced certain compromises by Soviet officials in this connection. The compromises have resulted in giving more consideration to nationalistic sentiments within certain Satellites.

Some of the above problems would be inevitable in any coordinated effort, and others (such as superfluous bureaucracy) seem relatively inconsequential to the success or failure of economic integration. In fact, Soviet Bloc coordination may not suffer unduly from say, a small degree of Satellite competition in external Bloc trade.

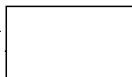
Recent developments in East Germany, where the USSR abolished the Soviet High Commission, returned the joint companies, and signed the Soviet-East German agreements granting "sovereignty" to that country, all point up the Soviet desire to end or at least to diminish its more obvious and crude forms of control over the Satellites. Soviet officials appear to be placing more reliance on the relatively subtle techniques of control, such as CEMA and the Communist Parties. Other developments, such as abolishing all but one of the joint Soviet-Rumanian Corporations, also point up this trend.

The termination or deemphasis of the more obvious forms of Soviet control over the Bloc has set the stage for erecting an apparition of mutual cooperation between the USSR and the Satellites and among the Satellites themselves.

In spite of the obstacles and compromises noted in the movement toward coordination and integration of the Soviet Bloc economies, demonstrable progress has been made in this direction. The following conclusions may be drawn:

(1) The economic plans for all the European Satellites are being coordinated for the 5-year plan period 1956-60, with all plans but those of Bulgaria running coterminous for this period. Over-all direction of the economic plans of the Satellites as well as supervision over the planning of specific items, at least for some commodities, are exercised by the USSR through the instrumentality of CEMA. In Soviet Bloc-wide planning, CEMA is the main organization through which Soviet economic directives are disseminated throughout the Bloc and is also a policy body for receiving and clearing Satellite plans for Soviet approval. In addition, CEMA directly intervenes and controls the planning of certain commodities for production and trading by the Satellites. In all these activities, CEMA is considered to be at least indirectly subordinate to Gosplan, USSR, and to the Council of Ministers, USSR.

(2) In spite of rather extensive and progressively systematic Soviet Bloc-wide plan coordination, there is too little evidence to state that a single economic plan involving all leading commodities in all the Satellites exists, although some trends seem to point toward the eventual establishment of such a plan.



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(3) Efforts continue toward working out a division of labor throughout the Soviet Bloc which could be expected to result in greater Bloc strength, development, and independence. On the principle that each Satellite should develop at least a rudimentary base of heavy industry if such does not already exist, each country has begun planned specialization in the commodities for which it is best suited from the point of view of raw materials base, developed industries, and strategic location, as well as of the economic needs of the Bloc. In addition to specialization in production, the members of the Bloc are in the process of standardizing a number of commodities and some services thus pointing toward a more integrated economic system.

(4) Although the Soviet Bloc countries use the ruble as the standard monetary unit in Bloc trade and more or less adhere to stabilized prices for intra-Bloc trade, extensive financial integration within the Bloc has not yet been achieved. The pricing system is the least developed aspect of Bloc integration.

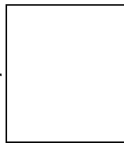
(5) The organizational components carrying out coordination and integration within the Soviet Bloc -- CEMA, the Communist Party, the state planning commissions and offices, and the ministries of foreign trade -- and related organizations seem adequately structured to achieve the results desired by the USSR in the way of economic coordination and integration.

(6) The Soviet Bloc has now achieved a degree of coordination sufficient to typify it as a coordinated economy. Proceeding from coordination to the question of integration, the Soviet leaders have made a very positive start in this direction, and some features of economic integration of the Bloc have already been achieved. Integration, it is concluded, is a long-range goal of the present Soviet leadership. Although a number of features of integration have not been realized as yet (such as complete central material and commodity allocations, the elimination of any marked inter-Satellite competition, and a completely unified financial system), the trend toward integration has been in force since 1949.

(7) Although significant and rather steady progress has been made since 1949 in integrating the economies of the Soviet Bloc, it is not anticipated that the Bloc will be fully integrated by 1960. It is concluded that the Soviet leaders will continue to work toward the eventual goal of full economic integration of the Bloc.

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APPENDIX A

TEXT OF CEMA AGREEMENT\*

The representatives of the Governments of the USSR, of the People's Republic of Poland, of the People's Republic of Czechoslovakia, of the People's Republic of Rumania, of the People's Republic of Hungary, and of the People's Republic of Bulgaria, meeting today in Moscow, have agreed on the following:

Article 1: There is hereby created for a period of 20 (twenty) years an economic organization to be called the Council of Mutual Economic Aid: composed of the countries represented and cited above.

Article 2: The purpose of this organization is:

(a) to coordinate the economies of the signatory countries within the framework of a general economic plan;

(b) to study, in each of the participating countries, the development of industries particular to that country, in order that the industries of all the signatory countries may complement each other and form a homogenous whole;

(c) to support the economic reconstruction of each country, taking into consideration their possibilities of production and supplies of raw materials;

(d) to increase the production capacity of each country by the creation of joint corporations, or other organizations, for the exploitation and exploitation of agricultural and mineral wealth;

(e) to organize the exchange of information;

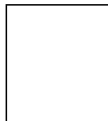
(f) to standardize and increase industrial production in the signatory countries, from the quantitative as well as the qualitative point of view;

(g) to guarantee the sale of industrial or other products of the signatory countries;

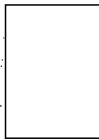
(h) to give grants or loans or to make investments with a view toward the economic consolidation of each of the signatory countries.

Article 3: Within the framework of the Council there is hereby created a permanent General Secretariat, to be located in Moscow, and having at its disposal a fund of 100,000,000 (one hundred million) rubles per year, to be paid as follows: (1) by the USSR, 50,000,000

\* 173/



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rubles, by each of the other signatory countries, 10,000,000 rubles. For 1949 these sums should be placed at the disposal of the General Secretariat by the 1st of April 1949.

Article 4: The Council will meet as often as necessary and at least once every three months, each time in a different signatory country; the meetings will be presided over by the delegate of the government of the country where the meeting is held, and will have as its aim the discussion of the economic situation in each country.

Article 5: Beginning in 1950, economic plans for each country will be drawn up following the suggestions and advice of the Council. For the current year, coordination of existing plans will be sought in the light of the present agreement and will conform to the process-verbans of the Council regarding each country.

Article 6: The present agreement does not in any way exclude, annul or change existing economic agreements between the signatory countries, among themselves or with others, of which the Council is cognizant.

Article 7: The Council may decide upon all applications for admission into the Council of countries not participating in the act of constitution, with the consent of the General Secretary.

Article 8: Each signatory country must place at the disposal of the Council or of the General Secretary all information and documentary material needed to permit and facilitate the work of observers that the Council or the General Secretary may find necessary to send to each signatory country.

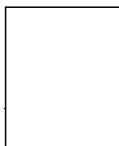
Each signatory country must also accept and follow the advice of the advisors or technicians that the Council or the General Secretary may find necessary to send into any of the member countries of the Council.

Article 9: The governments of the signatory countries promise to send to the General Secretary sometime during the first five days of each month detailed statistics, documentary reports and all other useful information concerning the economic and financial situation of their country. The General Secretary may make any decisions, subject to eventual ratification by the Council, having as their aim the correction, alleviation or elimination of any deficiencies in the monthly situation of a country in relation to the general plan of the Council.

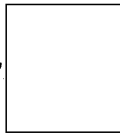
The decisions of the General Secretariat are final and binding.

The present agreement becomes valid upon its signature for a period of twenty years. It may be prolonged for

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successive periods of six years each. Any of the contracting parties may signify their desire to terminate the agreement by written notice five years before its expiration.

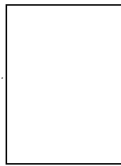
Drawn up in Moscow on 18 January 1949 in six copies, Russian, Polish, Czechoslovak, Rumanian, Hungarian and Bulgarian, each copy having the same validity.

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APPENDIX B

SOVIET PROPERTIES AND JOINT UNDERTAKINGS  
IN THE SATELLITES

1. Soviet Properties in the Satellites.\*

At the end of World War II the USSR took over a number of German, Italian, and Japanese assets in the Soviet Bloc countries. Most of these assets, totaling something over 400 enterprises in the European Bloc, were returned to the Satellite countries in which they were located by the end of 1954. From 1945 to 1954 some of the enterprises were reformed into jointly owned enterprises, the USSR owning 50 percent and the respective Satellite owning 50 percent.

The general partnership principle upon which the joint companies operated was a contribution by the USSR of a certain amount of equipment and skilled personnel (chiefly directors and engineers) and a contribution by the Satellites of the physical installations, natural wealth (mines, oil fields, and the like), and working personnel. 175/ A listing of former and present Soviet properties in the European Satellites in 1946-54 and their current status is shown in Table 3. \*\*

2. Joint Soviet Bloc Undertakings.

The joint undertakings in the Satellites enjoyed a privileged position derived from special legislation. The companies were free from taxes, from export duties, and from nationalization laws confiscating property, they were guaranteed a specific profit, and they could monopolize a particular field of endeavor. 176/

The system of Soviet-Satellite joint companies, with a few exceptions, was no doubt a short-run policy which tended to drain the resources of the Soviet Bloc more than it strengthened them. 177/ The political benefits derived from the transfer of the companies to the Satellite governments were of value to the USSR. Reports continue, however, to attribute a considerable share of the control of the new Satellite enterprises to the USSR. 178/ Liquidation of the joint undertakings also may have been caused partly by the Soviet reluctance to administer a number of widely separated, minor operations. The most important single reason for the dissolution of these joint companies was to end the most blatant Soviet control over the Satellites.

\* There is an extended listing of Soviet technical aid, machinery, and equipment sent to industries and plants in Poland, Rumania, Bulgaria, Albania, and Hungary. 174/

\*\* Table 3 follows on p. 40.







Table 3  
Soviet Properties in the European Satellites a/  
1945-56

Satellite	Enterprises Seized and Operated by the USSR after World War II	Number of Plants Returned to Satellites	Date of Return	Manner of Disposal	Joint Companies	Formation Date of Joint Companies	Number of Joint Companies Returned to Satellites	Date of Return	Joint Companies Continuing in Operation	Activity of Continuing Joint Companies
East Germany	216	74	1947		30 SAG's b/	1950 (?)	30	1952-54		
Rumania		23	1950				1	1955		
		66	1952							
		53	1953		Wismut AG c/	1953	15	1952-55	Sovrom-quartz	Uranium mining
	Bank	1	1954							
Hungary	201 Insurance companies	132	?		5	1945-46	5	1954		
	0	69	1952	Sold	0		0			
Bulgaria		0			4	1949-(?)	43	1954-55	Soviet-Bulgarian mining company	Uranium mining
Czechoslovakia	?	All	1946		0		0			
	Uranium mines	?	?				0			
Poland	An area of the port of Szczecin (Stettin)	0			0		1	1954		

a. 179/  
b. Sovjetische Aktiengesellschaft.  
c. Aktiengesellschaft.





In addition to the joint Soviet-Satellite companies, there are some joint Satellite-Satellite activities worthy of mention. A list of the known Satellite-Satellite joint enterprises is shown in Table 4. Satellite-Satellite joint undertakings will probably continue to increase in number if not in importance.

Table 4  
Satellite-Satellite Joint Undertakings a/  
1953-56

<u>Enterprise</u>	<u>Country</u>	<u>Product</u>	<u>Date of Formation</u>
Power center	Poland- Czechoslovakia	Power	
Hungarian aluminum smelting enterprise	Hungary- Czechoslovakia (power used)	Aluminum smelting	
Hydroelectric plant	Poland-Silesia	Power	1955-56 (?)
Rumanian plant	Rumania- East Germany	Gypsum- sulfuric acid	Planned
Rumanian plant	Rumania- East Germany	Cellulose	
Hungarian chemical plants	Hungary- Rumania (natural gas)	Chemicals	Planned
Hungarian plant	Hungary- Rumania (wood)	Cellulose	Planned
Romagchim	Rumania- Hungary	Natural gas chemicals	1953
Ruse-Giurgiu bridge over Danube	Bulgaria- Rumania		1954

a. 180/



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APPENDIX C

SATELLITE PRODUCTION PATTERNS FOR 1954\*

Albania produces agricultural products, but only in ginned cotton did this country produce in 1954 as much as 5 percent of total Satellite production. In addition, Albania produces POL products and chrome ore.

Bulgaria produces mainly agricultural products and their derivatives, as well as certain minerals. Its contributions to total Satellite production are as follows: lead mining, 29 percent; zinc mining, 13 percent; ginned cotton, 57 percent; wool, 25 percent; wheat, 21 percent; corn, 14 percent; barley, 11 percent; flour, 10 percent; wool fabrics, 6 percent; and non-self-propelled inland vessels, about 30 percent.

Rumania produces mainly oil products and their derivatives as well as agricultural products, although it also contributes more substantially to the total Satellite production of certain products of heavy industry than do Albania and Bulgaria. Its contributions to total Satellite production are as follows: gasoline, 65 percent; diesel fuel, 45 percent; crude oil, 85 percent; cement, 16 percent; tractors, 13 percent; freight cars, 12 percent; non-self-propelled inland vessels, 61 percent; wool, 44 percent; corn, 52 percent; wheat, 21 percent; hemp, 46 percent; flour, 11 percent; cotton fabric, 15 percent; and wool fabric, 11 percent.

Hungary provides almost all of the Satellite bauxite production, and in addition to the items listed below, produces large amounts of chemicals and various kinds of machinery and equipment. Its contributions to total Satellite production are as follows: aluminum, 40 percent; trucks, 14 percent; freight cars, 13 percent; hemp, 25 percent; corn, 32 percent; cotton fabric, 15 percent; wool fabric, 15 percent; and flour, 13 percent.

Poland is a leading producer of coal, various kinds of metals, freight cars, oceangoing vessels, industrial and food crops, textiles, and leather footwear. Its contributions to total Satellite production are as follows: hard coal, 77 percent; finished steel, 28 percent; pig iron, 31 percent; lead, 33 percent; sulfuric acid, 29 percent; synthetic ammonia, 22 percent; calcium carbide, 18 percent; naphthalene, 50 percent; freight cars, 27 percent; trucks, 29 percent; oceangoing and harbor vessels, 59 percent; small arms, 38 percent; flax, 54 percent; sugar beets, 32 percent; rye, 61 percent; barley, 28 percent; oats, 43 percent; potatoes, 61 percent; flour, 36 percent; milk, 44 percent; leather footwear, 22 percent; cotton fabric, 33 percent; and wool fabrics, 36 percent.

\* All data in this section are taken from 181/.





East Germany specializes in metals, chemicals, and machinery and equipment, contributing only small amounts to the total Satellite production of agricultural and light industry products. Its other contributions to total Satellite production are as follows: lignite and brown coal, 70 percent; finished steel, 22 percent; pig iron, 15 percent; primary aluminum, 31 percent; secondary aluminum, 73 percent; lead, 19 percent; sulfuric acid, 34 percent; nitric acid, 49 percent; synthetic ammonia, 61 percent; caustic soda, 56 percent; chlorine, 75 percent; calcium carbide, 70 percent; refined phenol, 58 percent; synthetic rubber, 89 percent; rubber tires, 30 percent; machine tools, 46 percent; trucks, 28 percent; tractors, 20 percent; railroad passenger cars, 36 percent; bearings, 44 percent; freight cars, 20 percent; passenger cars, 42 percent; electric motors, 26 percent; generators, 40 percent; oceangoing and harbor vessels, 28 percent; self-propelled inland vessels, 22 percent; and leather footwear, 22 percent.

Czechoslovakia produces mainly certain kinds of chemicals, machinery and equipment, textiles, and leather footwear. Its contributions to total Satellite production are as follows: lignite and brown coal, 15 percent; hard coal, 18 percent; finished steel, 35 percent; pig iron, 36 percent; sulfuric acid, 24 percent; nitric acid, 16 percent; caustic soda, 12 percent; chlorine, 13 percent; refined benzol, 37 percent; naphthalene, 37 percent; reclaimed rubber, 48 percent; rubber tires, 48 percent; machine tools, 31 percent; trucks, 30 percent; tractors, 37 percent; passenger cars, 52 percent; bearings, 41 percent; freight cars, 26 percent; turbines, 56 percent; electric motors, 35 percent; self-propelled inland vessels, 48 percent; aircraft, 71 percent; tanks, 50 percent; small arms, 43 percent; ammunition, 58 percent; barley (probably beer barley), 27 percent; leather footwear, 34 percent; cotton fabrics, 22 percent; and wool fabrics, 24 percent.



APPENDIX D

SPECIALIZATION OF PRODUCTION IN THE EUROPEAN SATELLITES  
1954-60

Table 5

Reported Specialization 1955	Planned Specialization 1956-60	Production Pattern a/* 1954	Export Pattern b/ 1954
Hungary c/ Aluminum Machine building Electrical industry Transportation equipment Bauxite Machine tools Agriculture Chemicals	Aluminum Electrical industry Transportation equipment Bauxite Medium machine tools Agriculture	Aluminum Bauxite Agriculture	Aluminum Bauxite Chemicals Manufactured products
Albania d/ Oil Nonferrous metals concentrates Bituminous Foodstuffs	Oil Nonferrous metals concentrates	Agricultural products	

\* Footnotes for Table 5 follow on p. 48.

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Table 5  
(Continued)

Reported Specialization 1955	Planned Specialization 1956-60	Production Pattern a/ 1954	Export Pattern b/ 1954
Bulgaria e/ Nonferrous metals concentrates Foodstuffs	Nonferrous metals concentrates Agriculture	Agriculture Non-self-propelled inland vessels	Minerals Agricultural products
Rumania f/ Oil Oil derivatives Foodstuffs Lumber	Oil Agriculture	Oil Oil derivatives Agriculture	Oil Oil derivatives Agriculture Lumber and wood
East Germany g/ Machine building			
Heavy Medium	Heavy machine building	Machine tools Medium machine building	Machine tools Heavy machine building
Precision instruments Ships Transportation, equipment and tractors Chemicals	Precision instruments Tractors	Passenger cars Chemicals and chemical products	

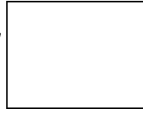


Table 5  
(Continued)

Reported Specialization 1955	Planned Specialization 1956-60	Production Pattern a/ 1954	Export Pattern b/ 1954
East Germany <u>g</u> / (Continued)		Coal Aluminum Leather products Ammunition	
Czechoslovakia <u>h</u> / Heavy industry products Machine tools Transportation Electrical power Agriculture Machine building	Steel heavy industry products Machine tools	Metals Machine tools Transportation equipment Agriculture Machine building	Industrial equipment Industrial equipment Machinery
Heavy Agricultural machine building Chemicals Coke Footwear Aircraft (combat)	Heavy machine building Medium machine building	Heavy Medium Chemicals Aircraft Ammunitions	Machinery Machinery Chemicals Textiles and manu- factured products







Table 5  
(Continued)

Reported Specialization 1955	Planned Specialization 1956-60	Production Pattern a/ 1954	Export Pattern b/ 1954
Poland i/ Mining Metallurgical equipment Textiles Aircraft (combat) Coal and coke Timber Foodstuffs Transportation equipment Medium tractors Automobiles Chemicals Leather goods	Mining Steel and metallurgical equipment  Coal and coke  Medium tractors  Chemicals	Mining Steel  Coal Agriculture Transportation equipment  Chemicals Leather goods	Metals Metallurgical equipment  Coal and coke  Manufactured products

a. Listed commodity production is at least 28 percent of total Satellite production. 182/

- b. 183/
- c. 184/
- d. 185/
- e. 186/
- f. 187/
- g. 188/
- h. 189/
- i. 190/



APPENDIX E

COMMODITIES AND PROCESSES REPORTED AS STANDARDIZED  
OR BEING STANDARDIZED IN THE SOVIET BLOC  
1952-55

Table 6

Commodity	Country	Standard	Date
Iron a/#	East Germany	Soviet GOST	May 1954
Steel b/	East Germany	Soviet GOST	Oct 1953
Machine tool industry c/	Hungary	Soviet OST	Nov 1954
Heavy machinery d/	Czechoslovakia	Soviet GOST	1953
Medical factory (plans) e/	Bulgaria		1953
Screw threads f/	East Germany and USSR		1955
Geodetic tables g/	East Germany	Soviet Bloc	1955
Gauges, test, and standards h/	East Germany, Poland, Hungary, Czechoslovakia	Soviet Bloc	1955
Production methodology i/	East Germany		1955
Railroad rolling stock j/	Bulgaria and Czechoslovakia		1954
Machine building k/	East Germany		1952
Construction methods l/	Rumania		1953
Antifriction bearings m/	Hungary		
Transport machine building			
Agricultural machine building			
Construction equipment			
Power-generating equipment			
Metal-cutting equipment			
Casting and forging industries			

\* Footnotes for Table 6 follow on p. 50.

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Table 6  
(Continued)

Commodity	Country	Standard	Date
Chemicals industry <u>n/</u>	Czechoslovakia	Soviet	By 1958
Rolling mill structurals			
Light industry			
Machine building (with a few exceptions)			
Basic materials			
Raw materials			
Semifinished products			
Simple machine parts			
"All production areas"			
Tolerances and fits			
Weapons <u>o/</u>	Czechoslovakia	Soviet	
Ballbearings and nuts and bolts <u>p/</u>	East Germany	Soviet	
General <u>q/</u>	East Germany	Soviet	
Labor standards (wages, hours, and the like) <u>r/</u>	East Germany	Soviet	
Measures and grades of merchandise <u>s/</u>	Rumania (Soviet Bloc)	Soviet	
Weapons and armaments <u>t/</u>	Soviet Bloc	Soviet	
Metallurgical industry <u>u/</u>	Czechoslovakia	Soviet and Czechoslovakia	May 1955
Tin plate and metals <u>v/</u>	Bulgaria	GOST	Oct 1954 Jan 1955
Rolled materials and pipes <u>w/</u>	Soviet Bloc		
Electromechanical gear measuring equipment <u>x/</u>	East Germany and Soviet Bloc		1955 (?)
Textile pattern rollers <u>y/</u>	East Germany and Czechoslovakia		

a. 191/	f. 196/	k. 201/	p. 206/	u. 211/
b. 192/	g. 197/	l. 202/	q. 207/	v. 212/
c. 193/	h. 198/	m. 203/	r. 208/	w. 213/
d. 194/	i. 199/	n. 204/	s. 209/	x. 214/
e. 195/	j. 200/	o. 205/	t. 210/	y. 215/



## APPENDIX F

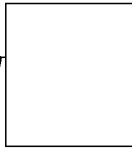
SATELLITE PAYMENTS TO CEMA a/  
1949-55

Table 7

<u>Country</u>	<u>Amount</u>	<u>Period</u>
Bulgaria	405,965 rubles	1949 (Initial payment)
	347,998 rubles	1952 (?)
		(Subscription payment)
	116,200 rubles	1954 (?)
		(Dues)
	37,148 rubles	1954 (?)
		(Dues)
	116,200 rubles	1955 (?)
		(Dues)
	345,898 rubles	Technical assistance for second half 1954
Czechoslovakia	966,345 rubles	1949 (Dues)
	5,225,000 crowns	Dues for 5 years
Poland	15,850 rubles	1950 (?)
	418,000 rubles	Balance for 1949 and pay- ment for 1950
	617,500 rubles	20 percent share (1951 ?)
Rumania	172,000 rubles	(?)
Albania	36,400 rubles	Third quarter 1952
	30,201 rubles	First quarter 1953
	30,240 rubles	Expenses for representatives to CEMA
	16,000 rubles	Further payment on 1952 quota
	33,200 rubles	First quarter 1954
	33,200 (sic) rubles	Third quarter 1954
	84,000 rubles	(?)

a. 216/

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APPENDIX G

METHODOLOGY

Two main approaches are possible in a study of economic integration in the Soviet Bloc. The first approach is that of analyzing production and trade data for the individual countries within the Bloc. To be most useful, these data would have to be broken down by specific commodities. Additional information would be required to place these data in context and to relate them to integration. The second main approach is that of analyzing all available official Soviet and Satellite statements and reports, as well as  in order to attempt a determination of the existing state of Bloc coordination and integration. The limitations of the latter approach are that it does not benefit from the detailed commodity data called for in the first method. This report utilized the second approach because of serious information gaps in the commodity data, although a certain amount of available Satellite production information and some trade statistics were employed.

The criteria for determining a division of labor among Satellites were those of official Soviet and Satellite statements, known specializations, the distribution of production, and export patterns. The latter two criteria are understandably indirect in the determination and analysis of specialization. To be fully answered, however, this problem would require considerably more research in several different fields than was undertaken for this study.

Because of frequently sparse information on important questions, this report was more successful in pointing up trends toward integration than in determining the precise state of progress in past and present integration.



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APPENDIX H

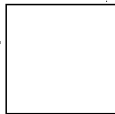


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APPENDIX I

SOURCE REFERENCES

The most fruitful sources for a study such as this are documentary accounts of the organization and activities of Soviet Bloc coordinating and integrating organizations and mechanisms, such as CEMA. In this connection, official statements of Soviet and Satellite officials were considered, when applicable, as authoritative when reporting such events as CEMA activities.

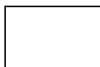
In addition to reliance on a number of official statements, [redacted] the FBIS, Department of State economic reporting from the Satellites, [redacted] were relied on for a considerable amount of variable information. [redacted]

Evaluations, following the classification entry and designated "Eval.," have the following significance:

<u>Source of Information</u>	<u>Information</u>
Doc. - Documentary	1 - Confirmed by other sources
A - Completely reliable	2 - Probably true
B - Usually reliable	3 - Possibly true
C - Fairly reliable	4 - Doubtful
D - Not usually reliable	5 - Probably false
E - Not reliable	6 - Cannot be judged
F - Cannot be judged	

"Documentary" refers to original documents of foreign governments and organizations; copies or translations of such documents by a staff officer; or information extracted from such documents by a staff officer, all of which may carry the field evaluation "Documentary."

Evaluations not otherwise designated are those appearing on the cited document; those designated "RR" are by the author of this report. No "RR" evaluation is given when the author agrees with the evaluation on the cited document.



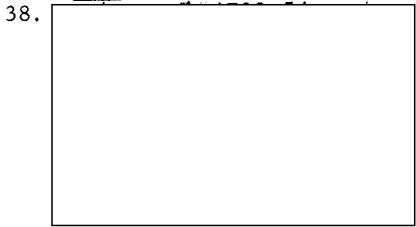


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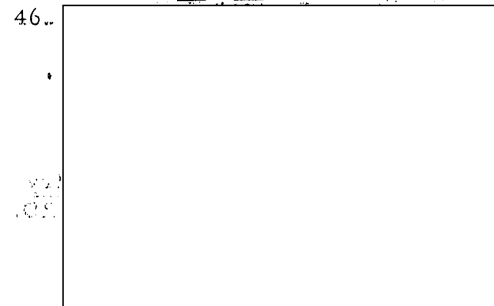
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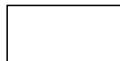
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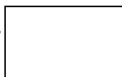
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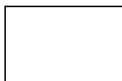
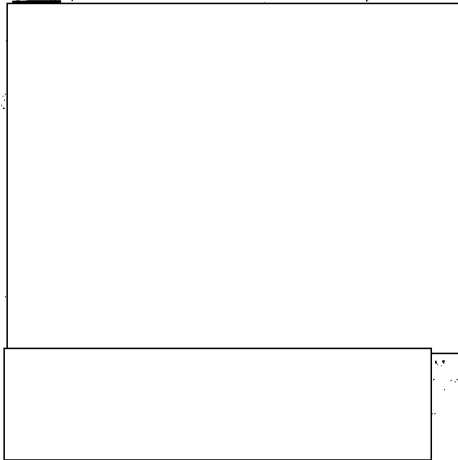
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