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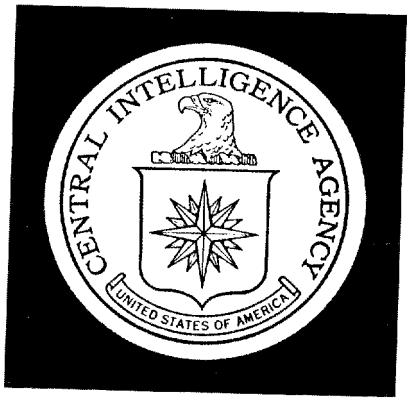

DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

Economic Impact of USSR's Occupation of Czechoslovakia

Secret

№ 43

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ECONOMIC IMPACT OF USSR'S OCCUPATION OF CZECHOSLOVAKIA

The greatest economic burden of the Soviet invasion and occupation falls on Czechoslovakia. The immediate costs arising from economic disruption and physical damage are, however, relatively small. Some $300 million in property damage occurred and not much more than this in terms of lost production. By comparison, during the Soviet invasion of Hungary in 1956, property losses alone amounted to over $1 billion. Other short-term Czech losses include reduced hard-currency earnings from a halt in tourism, export losses—much of which probably can be made up—distortions to production, and the spoilage of perishable goods.

In the longer run, however, the effects are likely to be more serious. Czechoslovakia will be forced into closer collaboration with the USSR and East European countries, preventing meaningful implementation of its economic liberalization program. Moreover, through Soviet-influenced investment policy, Prague will be compelled to continue producing obsolescent goods. This will tie Czechoslovakia more firmly to the only market for such products—other Communist countries—as it falls farther behind its Western competitors.

The USSR also accrued some new costs, largely military, from its venture into Czechoslovakia. Although East Europeans participated in the invasion, almost all the direct additional military costs, estimated at the equivalent of $400 million, fall on the USSR. In some respects, this operation was comparable to a large-scale Warsaw Pact military exercise because of the lack of resistance and the geographic proximity of the forces.

Increased Czech economic dependence during the next year will result in a growing burden on Moscow, however, even though the USSR will probably refuse to grant Czechoslovak requests for reparations. Indirect losses to the USSR include probable refusals by Western countries to furnish advanced technology, such as a third-generation computer package under negotiation at the time of the invasion.

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Initial Cost to Czechoslovakia

In Czechoslovakia, the main physical damage was to roads and transport facilities, and this cost is estimated to run about $300 million. The transportation system was hard hit, with heavy military traffic causing extensive harm to road surfaces and other transport facilities. Moreover, during the first four days after Soviet forces entered Czechoslovakia on 21 August, municipal traffic almost stopped, and rail transport ground to a halt as a result of the closing of border crossing points to commercial traffic. All other aspects of economic life were affected in turn--the supply of fresh produce, meat, and dairy products to the population, deliveries on export contracts, and personal movement, including travel to and from work.

The restoration of almost normal transport services by the end of August led to rapid improvements throughout the economy. By then, however, production losses had mounted. A Czechoslovak estimate put the loss in output during the first week of the occupation at $250 million. Losses in the second week were much smaller. The loss in output during the first two weeks probably represented not more than 1.5 percent of the annual national product, estimated at about $25 billion for 1967. The output of the Czech economy in the third quarter may be below the level of 1967, but the fourth quarter and the year as a whole still are expected to show some growth.

In addition, losses in exports amounted to $58 million during August, half of this in shipments to Western countries. In time, however, most of these losses will be recovered. The foreign exchange lost as a result of the shutdown of tourism and the temporary stopping of rail and civil air traffic across the country cannot be recovered, however, and will add a few more million dollars damage to the Czech economy.

Longer Run Impact on Czechoslovakia

Full economic recovery will take some time, but one Czech estimate that future losses would be several times the initial loss seems unduly pessimistic. Once the political situation is stabilized, output should return to a level at or above that of 1967. On 31 August, the Czechs estimated that industry already was operating at about 93 percent of the "normal rate."

Since 31 August, Soviet deliveries of raw materials probably have returned to normal. In recent negotiations, the USSR has confirmed and extended its previous agreement for increasing deliveries in 1969--including 1.6 million tons of grain, an increase of 300,000 tons over 1968, and 9.3 million tons of crude oil, an increase of 500,000 tons. The USSR also agreed to initiate deliveries of large quantities of iron ore pellets

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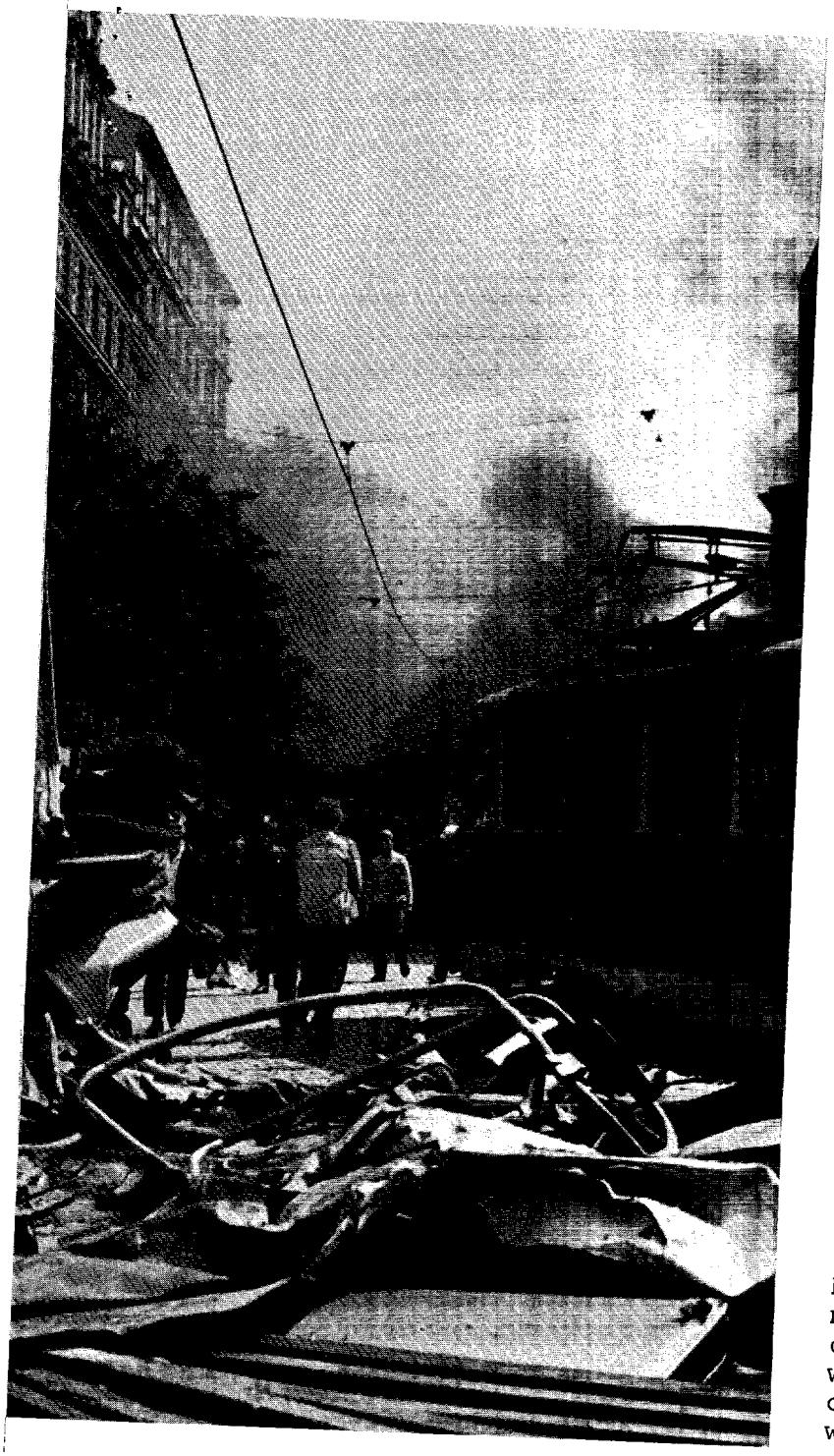

and natural gas. Shipments from other Eastern European countries also should soon return to normal, if they have not already done so. Shipments from the West, particularly overseas countries, could be held up for some time, however, pending the clarification of existing agreements.

To the extent that supplies permit, the Czech regime is determined to make up arrears in production. "Dubcek shifts" are being worked on weekends for this purpose. Waste is likely to be greater than usual, however, as a result of a continued general confusion over policies and plans, especially those relating to economic reform and trade with the West.

The Soviet occupation forestalls Czechoslovakia's plans for making a fresh start in economic policy. Although some type of "economic reform" is likely to be maintained, it will probably be the standard variety prevalent in Eastern Europe. As in the past, therefore, the Czechoslovak economy will still be characterized by tight controls and trade with the Communist world, and growth will continue to be obtained at high cost.

Growth so far has been maintained mainly through expanding the output of obsolescent goods. Most of these are then used to make possible the output of additional obsolescent products, which are used to equip Czechoslovak factories or in trade with the Communist world. Czech-

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oslovakia now remains caught in this vicious circle.

The Czechoslovaks must likewise forgo hopes of achieving closer relations with the West, in economic affairs as in politics and culture. Economic relations with the West, slated for expansion before the crisis in August, probably will be narrowed now and surely will not be enlarged.

In this sense, there is good reason for pessimism regarding the future. Substantial political freedom and a good deal of outside help, from East and West alike, are conditions for making basic changes in the economic system that has ruined Czechoslovakia's competitive position in the European market. These conditions obviously are not likely to be met in the near future. Czechoslovakia cannot hope to follow Yugoslavia and Rumania in obtaining the political benefits of greater economic independence.

The USSR, however, has a strong stake in making the Czechoslovak economy work smoothly, as shown by the agreement to increase trade substantially in 1969. More aid than this does not appear necessary to bring about rapid recovery to the pre-invasion level. The Soviet Government may well reward a submissive regime with some additional support, but almost certainly not with the large loan of hard currency--about $500 million--requested earlier this year.

Costs to the USSR

The mobilization and transport of troops into Czechoslovakia account for most of the immediate costs to the USSR. Direct expenses arising from the partial mobilization of Warsaw Pact forces for the invasion are estimated to be the equivalent of $400 million, virtually all of which probably was borne by the USSR.

The estimated Soviet expenditure reflects only the costs above what it would have cost to maintain these same forces under normal circumstances. About two thirds of the costs were for the ground force units--some 250,000 men--and for air support--about 500 tactical fighters and 250 transports manned by 25,000 personnel. The mobilization of some 50,000 reserves accounted for most of the remaining expense.

The indirect impact on the Soviet economy of the partial mobilization and occupation has been insignificant. The POL and other materials required undoubtedly were drawn from stockpiles and can be readily replaced. The diversions of trucks from civilian use, notably from agriculture, were not numerous enough to disrupt the harvest or other essential civilian activity. The removal of 50,000 reserves from their civilian

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occupations had little over-all adverse effect on an economy with a nonagricultural labor force of 80 million.

Czechoslovakia has asked the Soviet Government to pay reparations for the property losses caused by Soviet troops. In addition to damaging roads and transportation equipment, the troops destroyed or damaged communications equipment and requisitioned some supplies. The USSR seems likely to refuse to accept liability for this damage.

The USSR does, however, stand to lose something in its economic relations with the West as a result of hostile public reaction. Trade relations probably will be little affected, but negotiations under way for purchasing advanced Western equipment could be affected. In particular, the United States and the United Kingdom may be reluctant to export third-generation computer technology to the USSR at this time.

Costs to Other East European Countries

In addition to relatively minor expenses related directly to their military involvement,

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the Eastern European countries incurred some indirect costs--and inconvenience--following the disruption of traffic through Czechoslovakia. Some of the north-south trade that normally transits the country had to be rerouted through West Germany and Austria, and had to be paid for in hard currency. Damage may also have resulted where perishable commodities were shipped and could not be rerouted on short notice. Poland, Hungary, and Bulgaria ship substantial amounts of such items. Losses could run to several million dollars, and these cannot be recovered.

In addition, Poland, Hungary, and Bulgaria may temporarily lose some of their profitable Western tourism. Eastern Europe, however, offers the Western Europeans an inexpensive vacation, and they will probably be back in force next year.

There are no prospects that major Western countries engaged in East-West trade will impose economic sanctions against Eastern European countries. Nevertheless, further liberalization of trade restrictions, which had been under consideration, may be delayed. [redacted] 25X1

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