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THE ROLE OF CEMA
IN THE SOVIET ECONOMIC OFFENSIVE



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CENTRAL INTELLIGENCE AGENCY

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Economic Intelligence Report

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FOREWORD

This report is focused on the coordination by CEMA of the Soviet Bloc economic offensive against the Free World. For a review of CEMA activities relating to the economic coordination and integration of the economies of the European Satellites, see CIA/RR 59-32, Economic Coordination in the Soviet Bloc: A Preliminary Evaluation, August 1959, SECRET/
CIA/RR 60-30, Recent Trends in Economic Coordination in the Soviet Bloc, October 1960, SECRET.

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THE ROLE OF CEMA IN THE SOVIET ECONOMIC OFFENSIVE*

Summary and Conclusions

Responding to the dictates of Soviet foreign policy, the Council for Mutual Economic Assistance (CEMA), heretofore primarily concerned with intra-Bloc** economic activities, now also has become the center for organizing and coordinating the participation of the Satellites in the Soviet economic offensive in the underdeveloped countries. This important new function of CEMA has received very little publicity from Bloc spokesmen, as great care is being taken to avoid any appearance of plotting a conspiracy against these countries. Nevertheless, working quietly behind the scenes, CEMA has made considerable progress in concerting the foreign trade activities of the Satellites in the underdeveloped countries. Specifically, CEMA has begun to develop a comprehensive program designed to exploit the growing economic complementarity between the Satellites and the underdeveloped countries in support of the foreign policy objectives of the USSR.

This CEMA program is built around the following principal features: (1) market research studies of target countries; (2) coordinated planning for the sale of complete plant installations, including coordination of subcontracting under Soviet credit agreements; and (3) coordinated planning of technical assistance. The CEMA market research studies are best described as blueprints for the Soviet economic offensive. These studies are designed to provide a comprehensive review of political and economic conditions in target countries and to explore the resource potential for further growth. To assist this growth and, as far as possible, to guide it in the direction believed to be most favorable to the long-run interests of the Bloc, CEMA selects specific economic development projects to be offered to the underdeveloped countries by member states and recommends attractive terms -- at times more advantageous than those of the West -- for effecting delivery of the requisite machinery and equipment. Of special importance in this respect is the allocation of subcontracts for specific projects included in Soviet credit agreements, enabling the Satellites to bid on portions of projects that they could not undertake individually. In

* The estimates and conclusions in this report represent the best judgment of this Office as of 15 September 1960.

** The term Bloc as used throughout this report refers to the Soviet Bloc, and the term Satellites refers to the European Satellites.

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addition, coordination of the form and substance of technical assistance is undertaken by CEMA to promote the buildup of a comprehensive, Bloc-wide pool of technical and administrative expertise that can be supplied to the underdeveloped countries as the opportunity arises, at prices equal to if not better than those offered by the industrialized West.

CEMA, following the lead of the Soviet credit program, in the past has focused planning and coordinating activities largely on Afghanistan, Burma, Ceylon, India, Indonesia, and the UAR. More recently, attention also has been directed toward Iraq and the newly independent states of Africa and presumably toward the opportunity to infiltrate the Western Hemisphere through revolutionary Cuba. In the future it may reasonably be expected that, following the established pattern, the USSR and the Satellites will attempt to exploit through economic means potential sources of conflict between the industrialized West and the underdeveloped countries and, again following established practice, that CEMA will be the instrument for coordinating the activities of the various Bloc countries.

As an outgrowth of its coordination of Satellite support for the Soviet economic offensive in the underdeveloped countries, CEMA also has begun to coordinate Satellite trade with the Free World in general. By concerting the buying and selling activities of the Bloc in the Free World markets, CEMA hopes to strengthen the bargaining power of the Bloc in respect to its Western competitors in the underdeveloped countries and in respect to its trading partners in the industrialized West. Agreement on sale and purchase prices and on assignment of export and import monopolies are among the principal tactics that thus far have been developed to achieve this end.

The impact of CEMA activities in support of the Bloc economic offensive will be felt more generally in the next few years. During that time, programs and projects only recently begun should have had time to mature and to be brought to fruition, and the industrial plant of the Bloc also should have been expanded considerably. Enhancing the effectiveness of this enlarged productive capacity by providing purposeful guidance and control, CEMA is expected to become an increasingly useful instrument for marshaling the economic potential of the Satellites and directing it in line with Soviet objectives.

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I. Introduction

The Bloc economic offensive in the underdeveloped countries is perhaps the most significant and, from the long-range point of view, the most challenging stratagem of Soviet foreign policy in recent years. Confronted by the prospect of a prolonged stalemate in Western Europe, which presumably could be broken only at the risk of unleashing nuclear war, the Soviet leaders decided to outflank the Western position by launching a politicoeconomic program of penetration in the underdeveloped countries.

Soviet doctrine traditionally has considered colonial possessions as vital appendages of the West necessary to insure the efficient operation of the capitalist system. Even though many of the former colonies long ago achieved their political independence, Bloc policymakers continue to regard them as essential sources of raw materials for the industrial West and as important outlets for disposing of the surplus production of capitalist industry. To divide these countries from the West would therefore greatly weaken the capitalist system and hasten its demise. Accordingly, through the promise of substantially increased trade and extensive financial and technical assistance for national development, the Bloc economic offensive is designed to persuade the underdeveloped countries to follow an economic course independent of the West and to adopt a policy of neutrality if not of outright support for the Soviet cause in the unfolding power struggle between East and West.

Before the economic offensive was launched, Bloc trade with the underdeveloped countries was spearheaded largely by the Satellites, the expanding economies of which require new sources for imports of raw materials and new markets for exports of machinery and equipment. Initially uncoordinated in their efforts, the Satellites sought to further immediate national self-interest and patterned their trade accordingly. Once the decision was reached, however, to make the economic penetration of the underdeveloped countries a priority objective of Soviet foreign policy, the need for concerting the trade of all the Satellites was clearly recognized. This important task was assigned to the Council for Mutual Economic Assistance (CEMA) in 1955.

II. Coordination of Satellite Support for the Economic Offensive in the Underdeveloped Countries

The efforts of CEMA to coordinate Bloc trade with the underdeveloped countries date from its Sixth Plenary Session held in the fall of 1955. By that time the USSR had decided to launch its economic offensive in the Free World, and CEMA was selected as the mechanism through which to organize Satellite support. No concrete

measures were agreed on at this session. Rather, the Satellites were advised to avoid competition among themselves in trade with the underdeveloped countries; to coordinate their exports to these countries; and, if necessary, to give each other mutual aid in order to fulfill export obligations. The difficult task of developing a comprehensive program that would consistently adapt the very real economic need of the Satellites for increased trade with the underdeveloped countries to the pursuit of the objectives of Soviet foreign policy in these areas was begun only after the reorganization of CEMA in 1956-57 and the creation of permanent committees for Foreign Trade and for the Delivery of Complete Plant Installations. In the program that has evolved, there are three major areas of Bloc activity in the underdeveloped countries now being systematically coordinated -- market research studies of target countries, the planning of sales of complete plant installations, and the planning of technical assistance.

A. Preparation of Market Research Studies

The preparation of basic market research studies on the underdeveloped countries represents the initial phase of the CEMA program for coordinating the foreign trade activities of the Satellites in support of the Soviet economic offensive in these areas. A meeting of the CEMA Permanent Committee for Foreign Trade, called in the fall of 1957 to consider ways and means for expanding Bloc trade with the underdeveloped countries, recommended that such studies be drawn up for those underdeveloped countries in which the participating countries of CEMA have their greatest interest in developing economic relations. 1/*

Not unexpectedly the economic interests of the Satellites coincided with Soviet political objectives. Thus the initial studies included the key targets of the Soviet economic offensive -- Afghanistan, Burma, Ceylon, Egypt, Syria (these studies were prepared before the establishment of the UAR), India, and Indonesia, as well as such politically sensitive Latin American areas as Argentina and Brazil. Inclusion of the Latin American countries is particularly significant in view of the fact that the Bloc, at least initially, saw little prospect for penetrating the Latin American market in the near future. In a discussion during 1958 of the market research studies on Argentina and Brazil, the Polish, Czechoslovak, and Soviet delegates reportedly agreed that efforts to expand trade with Latin America would become economically profitable only in the long run and then only if long-term credit arrangements could be worked out. Nevertheless, these delegates urged that overriding political considerations demanded that the members of CEMA make every effort to

build up their trade with Latin America because "the Latin American countries use the socialist countries as a counterpoise against the United States, and this political situation must be exploited." 2/

The market studies prepared for CEMA are best described as comprehensive economic surveys. These studies contain general background information on the political and social structure of each country and discuss in considerable detail the organization and operation of the economy. Illustrative of the broad coverage of these reports is the following table of contents from the Polish study of the Turkish market 3/:

Chapter I	Political Structure, Administrative Subdivisions, and Population
Chapter II	Economic Situation
Chapter III	Agriculture and Animal Husbandry
Chapter IV	Minerals and Mining Industry
Chapter V	Metallurgical Industry
Chapter VI	Other Branches of Industry
Chapter VII	Energy Resources
Chapter VIII	Highways and Railway Lines
Chapter IX	Ships and Shipyards
Chapter X	Balance of Trade
Chapter XI	Structure of Foreign Trade
Chapter XII	Polish-Turkish Trade
Chapter XIII	Prospects for the Export of Complete Enterprises
Chapter XIV	Agents in Export Transactions
Chapter XV	Foreign Exchange, Currency Regulation, Foreign Exchange Regulation, and Customs
Chapter XVI	Import Restrictions

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Chapter XVII Guarantees of Payment in Export Trade

Chapter XVIII Summary and Conclusions

Each sector of the economy is examined from the point of view of its current stage of development as well as its potential for future growth. Key production data are provided for agriculture and industry, and foreign trade statistics are carefully analyzed to show recent trends in the commodity structure and geographic distribution of the most important imports and exports. Finally the domestic and foreign economic policies and plans of the individual countries are considered, particularly in their relation to Bloc plans for expanding trade relations. These reports are submitted to the CEMA Permanent Committee for the Delivery of Complete Plant Installations,* where, following committee discussion and approval, they become the basis for formulating a coordinated program for economic development in the country concerned. An East German delegate stated, "It is only on the basis of this type of documentation that CEMA countries are enabled to perform more effectively in the underdeveloped countries." 4/

The CEMA program for individual target areas, as developed by the committee, is circulated to the member countries in the form of a summary report that contains the following sections:

1. A short estimate of trends in the development of the main sectors of the economy.
2. A list of projects that the underdeveloped countries wish to construct, expand, or modernize, as well as the needed technical assistance.
3. A list of industries and projects recommended for development and construction with the participation of the members of CEMA through the supply of equipment for complete plants and the rendering of technical assistance.
4. Recommendations on directions for further study of the market of the target country. 5/

* This committee originally was set up to organize and supervise the trade of the Bloc with the underdeveloped countries and now is being merged with the Permanent Committee for Foreign Trade.

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Section 3, the core of the CEMA program, represents a serious attempt to prepare a blueprint for economic development in the target countries on the basis of available manpower and natural resources. Committed as a matter of principle to the preferential support and expansion of state-owned enterprises and the public sector of the economy, 6/ CEMA recommends Bloc participation in the construction of electric power generating plants in all of the target countries and in the expansion of mining industries in most of these countries. Heavy industry is stressed in the list of recommendations for exports to India (work on the Bhilai steel complex already had been initiated), Argentina, and Brazil. For other countries the plans of CEMA for industrial development stress food processing and production of building materials, fertilizers, and consumer goods. Improvements in transportation and in agricultural techniques also are included among the recommendations made. In general, the establishment of small-scale plants is favored, partly in recognition of the prevailing economic conditions and stage of development in the target areas and partly also in recognition of the limited production capabilities of the CEMA countries.

Extensive technical assistance is recommended not only for the agricultural and industrial sectors slated for economic development but also, very significantly, for government planning and public administration. Great emphasis is placed on the need for conducting thorough geological and engineering surveys and for other prospects yielding basic economic information. No specific proposals are included for financing the development projects and technical assistance recommended, although there appears to be a general presumption that the increasing output of industrial and agricultural raw materials which should result from systematic exploration and exploitation of available natural resources ultimately would provide the necessary exports to pay for Bloc equipment and trained personnel.

To coordinate the activities of the CEMA countries in the implementation of specific programs, the Permanent Committee for the Delivery of Complete Plant Installations stipulated that member countries must provide the Permanent Secretariat with the following information responsive to the recommendations made:

1. The equipment that the member country is interested in supplying, by project and by industry; what countries it is interested in supplying; the approximate volume of supplies; and a tentative time schedule for the delivery of such supplies.

2. The types of equipment and the countries on which the member country wishes to concentrate special attention from

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the point of view of specialization of production and of export-import needs.

3. The types of plants and the specific projects concerning which the member country needs cooperation with other countries (for what equipment and approximately for what period of time).

4. The types of technical assistance that can be rendered by the member country to individual underdeveloped countries. 7/

On the basis of this information, properly arranged and collated, the secretariat of the committee is enabled, theoretically at least, to balance the estimated import requirements (for economic development purposes) of the underdeveloped countries against the export availabilities of the Bloc and to insure that all opportunities for expanding trade -- and Bloc influence in general -- are exploited efficiently. The secretariat can recommend that member countries cooperate -- by means of joint ventures or subcontracting arrangements -- in bidding on specific projects in the underdeveloped countries which any one of the Bloc countries might find inexpedient to undertake alone. When two or more of the CEMA countries express an interest in selling the same type of equipment or installation to the same country, the secretariat can intervene and designate the supplier. In the absence of special political considerations, the designation ordinarily is accorded the country believed to be best able to meet possible competition from the West. 8/ Ultimately the assignment of specialized production responsibility is expected to carry with it the corresponding specialized responsibility for providing the necessary exports to non-Bloc countries.

It is too early as yet to judge the practical effectiveness of the CEMA market research studies and of the individual country programs based on them. The initial programs were adopted only in the spring of 1958, and many of the projects proposed in these programs require extensive planning and negotiation before they can be launched. Nevertheless, it should be noted that Bloc trade agreements with underdeveloped countries signed subsequent to the preparation of market research studies generally include the type of exports recommended.

B. Coordination of Exports of Complete Plant Installations

Exports of complete plant installations provide a unique potential for effecting economic and political penetration. Well aware of this fact, Bloc leaders promote such exports and the extension of credits necessary to finance them as key elements of the

economic offensive in the underdeveloped countries. Initially, such exports provide the opportunity for rendering technical assistance in setting up and operating the plant facilities provided, and subsequently there is a recurring need for specialized repairs and replacement parts. At the same time, repayment of the investment credits extended usually takes the form of goods and, therefore, insures a continuing flow of trade in the opposite direction. As a result, trade ties once established are strengthened or renewed. Apart from these economic considerations, which motivate East and West alike, the Bloc attaches considerable political value to its exports of complete plants. Bloc spokesmen like to point to such exports as convincing proof of the viability of the socialist system and of its superior ability to industrialize a backward economy rapidly, thus proffering at least the implied promise to underdeveloped countries that they too can achieve economic progress if only they adopt socialist methods.

1. Planning

To coordinate Bloc exports of complete plant installations to underdeveloped countries in line with the recommendations contained in its market research studies, the member countries of CEMA undertook to prepare long-range plans for such exports during 1959-65, indicating the types of machinery and equipment to be exported as well as the intended country of destination. 9/ These plans were submitted to CEMA for coordination and approval.* The review of these plans reportedly resulted in the recommendation that member countries concentrate on the construction of 10 basic types of plant installations.** Through efficient planning and organizing of production and by employing modern equipment and technology, the Bloc expects ultimately to be able to make delivery at prices more favorable than those offered by the West. 11/

Supplementing the coordination of the long-term plans of member countries for exports of complete plant installations, CEMA has set up an extensive mechanism for exchanging current information on trade inquiries from the Free World. At the direction of CEMA, member countries disseminate monthly reports specifying the country of inquiry, the inquiring firm or its agent, the type of plant or

* On the basis of the limited information available, individual plans seemed to conform generally to the recommendations set forth in the market research studies.

** Only sugar factories, cement plants, and power generating stations were identified. According to a subsequent report, Deutscher Innen- und Aussenhandel (DIA) Invest-Export, the East German foreign trade corporation coordinating exports of complete plant installations, is in fact concentrating on the export of such plants. 10/

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equipment requested, the date of inquiry, and the disposition made of the inquiry. 12/ A master file on all inquiries received is maintained by the secretariat of the foreign trade committee.

The ultimate objective of this exchange of information appears to be to channel trade inquiries to the particular member country that either has been selected to specialize in the production of the plant or equipment in question or, in the absence of specialization assignments, that is best qualified to supply it. This procedure already has been followed in a number of instances. Inquiries from Western firms have been referred by the original recipient in one CEMA country to the corresponding foreign trade enterprise of another because the equipment requested was not in the export program of the original recipient. 13/ In other instances the original recipient of an inquiry noted that it would be prepared to subcontract for part of the order but would not be in a position to undertake the entire contract. 14/

2. Financing

The efforts of CEMA to coordinate Bloc exports of complete plant installations to underdeveloped countries also extend to the necessary financing arrangements. In this context, CEMA considered a recommendation made by the USSR in mid-1958 that all member countries follow the Soviet lead by offering investment credits* at the low annual rate of interest of 2.5 percent. After considerable discussion revealed vigorous opposition to the Soviet proposal on the part of several of the Satellites -- notably Czechoslovakia, Hungary, and Poland -- the USSR declined to press its recommendation, thus leaving the Satellites free to negotiate on their own.** 16/

* The term investment credits is used to denote credits for specific purchases of capital goods.

** The arguments presented by individual Satellites in the course of this debate provide considerable support for the view that they regard trade with the underdeveloped countries primarily as a commercial, rather than as a political, venture. Czechoslovakia reportedly demanded that the minimum rate of interest be established at 4 percent, arguing that if the USSR extends credit at more favorable terms, the Satellites would be virtually forced to follow suit although they, unlike the USSR, could not carry the economic burden involved. The Polish delegation supported the Czechoslovak position and buttressed its argument with the observation that as there is widespread demand for credit in the underdeveloped countries, a higher rate of interest should be readily obtainable. The Hungarian delegate went even further, demanding a minimum rate of 6 or 7 percent. In the face of this vigorous [footnote continued on p. 11]

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It should be noted, however, that whereas the USSR failed to gain unanimous agreement in CEMA for a policy of low-interest credits to underdeveloped countries, several Czechoslovak, East German, and Rumanian credits advanced to India and Egypt since mid-1958 do carry the 2.5-percent rate of interest.* 17/ These lower rates did not form a general pattern, however, for other credits also advanced since mid-1958 by Czechoslovakia, Hungary, and Poland carry interest rates of from 4 to 5 percent. 18/ This disparity in interest rates, particularly in the case of Czechoslovak credits, raises the interesting speculation that Satellite credits advanced at 2.5 percent may represent in fact Soviet credits subrogated to the Satellites for additional political or propaganda effect.

Whereas formal agreement could not be reached on a uniformly low rate of interest to be charged on credits to underdeveloped countries, the CEMA countries adopted, with only minor modifications, the Soviet recommendation for a common policy regarding the circumstances under which such credits would be extended. In general, this policy prescribes that credits would be granted in cases in which it did not seem possible otherwise to effect a sale. Credit arrangements would be drawn up between the foreign trade enterprises of CEMA countries and the government enterprises or private firms in the underdeveloped countries. When private firms are involved, bank or even government guarantees are required before credits are granted. The amount of the credits is to be expressed either in the national currency of the contracting countries or in a mutually agreeable, freely convertible currency, and repayment is to be made either through commodity deliveries -- as specified by the creditor country -- at world market prices or in freely convertible currency.** Credits are dated from the time of delivery and generally extend up to 4 years, although longer credits may be agreed on in special cases. If for any reason a member country of CEMA should deviate from the agreed provisions, that country must notify the other member countries of the precise circumstances and reasons. 19/

opposition and no outright support by the Satellites, the Soviet delegate suggested a compromise rate of 3 percent that also was turned down, leading to the above-mentioned impasse. 15/

* Of particular interest among these credits is a Czechoslovak credit for the third stage of construction of a foundry-forge plant being erected in India. Several months earlier, in January 1958, Czechoslovakia had extended a credit for the first stage of construction of this plant -- charging a 4.5-percent rate of interest.

** This provision, however, does not make clear whether or not the Bloc governments would be empowered to decide unilaterally to take goods or cash in repayment, nor is it clear when this option would be exercised.

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Activities of CEMA in support of sales of complete plant installations are expected to increase in scope and importance. Under the pressure of the Soviet economic offensive in underdeveloped countries and of the expanding Satellite export drive in general, the need for closer cooperation is being recognized more and more. As the planning and coordinating activities of CEMA become more efficient and more readily responsive to the long-term economic requirements of the participating countries, its recommendations will gain increasing approval and compliance. The intense competition among the Satellites, previously so marked in their trade with the West, is being replaced gradually by intra-Bloc cooperation in foreign markets.

3. Subcontracting of Soviet Credits to Underdeveloped Countries

Proliferation of Soviet credits to underdeveloped countries has opened a new and increasingly important field for CEMA activities. Cooperating closely with the Soviet State Committee for Foreign Economic Relations (GKES), CEMA has become a center for planning and coordinating Satellite participation in projects organized through large-scale Soviet development credits.

The Soviet-Egyptian credit agreement of 1958 illustrates this new sphere of CEMA activity. As soon as agreement in principle was reached between the USSR and Egypt, the Satellites were advised of the projects that had been tentatively agreed on. At a subsequent meeting held under the auspices of CEMA, individual Satellites indicated the specific projects that they would like to undertake either as sole contractor or in conjunction with one or more member countries. 20/ After detailed discussion of individual plans, it was decided that in instances where several of the member countries express an interest in supplying the same project, their responsible foreign trade representatives must decide which of the countries is best qualified to act as the principal contractor.

If several countries wish to subcontract the same project, the responsible foreign trade representatives similarly must decide on an appropriate allocation of work among them. 21/ The USSR, however, under a blanket Soviet credit agreement, retains control over all contractual assignments made. Satellite plans for individual projects must be submitted to the Soviet foreign trade enterprise,

V/O Tekhnoeksport, which has sole Bloc authority for signing contracts within the framework of the agreement.* 23/

Although detailed corroborative evidence is not available, it can reasonably be assumed that Satellite subcontracting of projects to be financed through Soviet long-term credits will become an increasingly significant pattern for cooperation in trade with the underdeveloped countries. Recent information indicates that the Satellites will participate extensively in the first stage of construction of the Aswan Dam project in Egypt, and the visit to Iraq of a team of technical experts, composed not only of Soviet but also of Czechoslovak and East German nationals, suggests that the Soviet line of credit to Iraq also will be implemented with Satellite participation.** 25/

This subcontracting arrangement enables the USSR to maintain general direction and control over the implementation of credit arrangements and at the same time permits more efficient allocation of individual projects through better utilization of areawide resources and production capacity. The Satellites also benefit from this arrangement because it enables them to participate in projects that they either could not or would not have undertaken without Soviet financial assistance.*** Through CEMA the implementation of the Soviet credit program can be more systematically worked into Bloc production schedules, thus lowering over-all costs and raising over-all effectiveness.

* Under special circumstances, foreign trade enterprises of the Satellites may negotiate directly with an underdeveloped country. For example, the Bulgarian company Techno-Impex negotiated directly with Syria regarding the Muhardah Dam to be constructed under the Soviet long-term credit. 22/

** The 21 April 1960 edition of the Iraqi newspaper al-Mabda' reports that East Germany and Czechoslovakia will provide machinery and equipment for a textile plant to be built in Iraq under the Soviet line of credit. 24/

*** It is assumed that the USSR, rather than the Satellite subcontractor, carries most of the burden of the credit. Although it is not known how soon the Satellites are reimbursed for projects undertaken under Soviet lines of credit to underdeveloped countries, it seems reasonable to assume that repayments usually are made on current account through such Soviet exports as raw materials, machinery, equipment, and foodstuffs. Were the Satellites themselves saddled with the credit burden, presumably they would be less ready to support this program.

C. Coordination of Technical Assistance

The USSR considers the extension of technical assistance to selected underdeveloped countries -- much like the sale of complete plant installations at favorable terms -- as a vital aspect of the Bloc economic offensive in the Free World. The technical assistance program, which has essentially long-range objectives, promises support to the underdeveloped countries in developing their agriculture and industry through the conduct of surveys of available natural resources, the training of specialists, and the furnishing of pertinent scientific and technical information. At the same time, the program promises to assist in the formulation (or revision) of economic plans and in the establishment of the governmental and administrative framework necessary to carry out these plans. Through the skillful operation of its technical assistance program, the Bloc expects to intensify and expand its economic relations with the underdeveloped countries.

Formerly the limited availability of adequately trained technical and administrative personnel appears to have inhibited the ability of some of the Satellites to provide extensive or diversified technical assistance.* 27/ To increase the effectiveness and to widen the scope of the technical assistance program, the CEMA Permanent Committee for the Delivery of Complete Plant Installations directed the member countries to prepare and submit their long-range plans for extending technical assistance to underdeveloped countries. 28/ On the basis of the information supplied, the committee then compiled a tentative schedule setting forth the types of assistance that the member countries planned to undertake during 1959-65 in selected underdeveloped countries. 29/ The current objective of compiling this schedule appears to be to acquaint member countries with all projects under consideration, placing reliance on voluntary cooperation to avoid needless duplication or competition among them. Ultimately, however, it is expected that the committee will be empowered to make specific assignments, in which case

* An article that appeared in the Bulletin for Representatives Abroad, published by the Czechoslovak Ministry of Foreign Affairs, stated quite frankly: "If Czechoslovakia is to cope effectively with the competition of capitalist states in the matter of technical aid, it must be in a position to react promptly to the needs of the underdeveloped countries. Up to now, in addition to obstacles caused by the capitalist countries, it was often the case that the CSR [Czechoslovak Socialist Republic] was not prepared to render immediate expert aid. The biggest problem has been the question of available cadres" 26/ If such a situation existed in Czechoslovakia, the most highly developed of the Satellites, it appears a reasonable assumption that it similarly existed in the less developed Satellites.

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the schedule will represent the official Bloc program and perhaps will be binding on the countries concerned.

To make the Bloc technical assistance program more immediately responsive to the needs of the underdeveloped countries, the Permanent Committee for Foreign Trade reportedly also conducts extensive current research in Free World publications to assemble detailed information on plans for future economic development in target countries. 30/ This research is designed to enable the Bloc to anticipate probable requests for specific types of assistance and to permit carefully coordinated advanced planning.

Quite apart from the availability of properly trained personnel and carefully coordinated plans, the success of the Bloc in expanding its technical assistance program, in competition with that of the West, depends on its ability to supply the required services at sufficiently attractive terms. The Soviet chairman of a CEMA subcommittee, considering the technical assistance program, reportedly summarized this proposition as follows: "The question of the costs for specialists sent out to underdeveloped countries was extremely important, and there must be unity about calculating them as low as possible. One must not forget that the money which is paid out for this purpose will come in again later. Through the employment of these specialists, the industrial plants now being built are tailored for the home country or countries of the CEMA states, and that will pay off in the future in every way The employment of the specialists is one of the most important ways of penetrating the underdeveloped countries."* 31/

In spite of initial strong protests by the Czechoslovak and, especially, the Hungarian delegations -- the latter objected to the proposal that technical assistance be granted at cost -- the Permanent Committee for Foreign Trade agreed to exchange detailed information on actual costs incurred as well as on the methods used in calculating them. The data submitted by member countries were to be processed by CEMA into a general rate schedule that, subject to member approval, would set the pattern to be followed by all members of CEMA. To further strengthen the Bloc's technical assistance program, CEMA directed member countries to prepare recommendations for uniform codes to cover the dispatch of specialists from CEMA countries to the underdeveloped areas and the training of personnel from these areas at the universities or training centers of CEMA countries. 32/

* Immediately afterwards, however, the chairman reportedly realized that he had committed a faux pas and corrected himself as follows: "The expression 'penetration' is not really suitable. It is used by the capitalist and imperialist powers, and we had better avoid it."

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III. Coordination of Commodity Trade with the Free World

Less glamorous than either long-term credits or technical assistance programs, commodity trade continues to be the mainstay of the Soviet economic offensive in the underdeveloped countries, and CEMA has strongly urged its member states to expand this trade as rapidly as possible. Of considerable importance to this drive to expand trade, therefore, is the effort of CEMA to coordinate Bloc trade with the Free World in general, for by concerting buying and selling activities in Free World markets, CEMA hopes to strengthen the Bloc's bargaining position with respect to its Western competitors in the underdeveloped countries and with respect to its trading partners in the industrialized West. Coordination of the pricing policies of the Bloc in trade with the West and the assignment of export and import monopolies are among the principal tactics that CEMA has thus far developed in its program for a controlled expansion of East-West commodity trade.

A. Coordination of Pricing Policy

Competition among the Satellites for Western markets and sources of supply has been one of the principal factors preventing the Bloc from presenting a united front in its trade with the Free World. To reduce this competition, the CEMA Permanent Committee for Foreign Trade devised and introduced a comprehensive program for concerted action in exports to and imports from the Free World providing for extensive collaboration among the member countries. As an initial phase of this program, the foreign trade committee in 1957 began to develop a list of products, the purchase or sale of which in Free World markets henceforth would require coordination between the Bloc countries primarily interested. ^{33/} As early as the end of 1957 the secretariat of the committee made the somewhat dubious claim that "the total value of those items which are bought and sold cooperatively by the foreign trade enterprises of the CEMA nations is estimated to be 50 percent of the total amount of trade with the West." ^{34/}

The list of products, which in trade with the Free World are subject to compulsory intra-Bloc coordination, is periodically reviewed and frequently expanded. According to an instruction in 1958 from the Bulgarian Ministry of Trade to its missions abroad, the list covers a wide range of industrial and agricultural raw materials, semi-processed goods, machinery, and equipment.* ^{35/} Coordination of sales

* These items include the following:

Exports of lumber, ferrous metals, coal, oil products, sugar, grain, cement, aniline dyes, cotton fabrics, railroad rolling stock, cars, motorcycles and bicycles, tractors ^[footnote continued on p. 17]

and purchases of these products is effected through the responsible foreign trade enterprises of the interested countries. Annually, or more frequently as appropriate, the authorized representatives of these countries meet to exchange information on market conditions in Free World countries. Based on this exchange of information, the foreign trade representatives seek to formulate agreed Bloc policy and tactics for trade in specific commodities and in specific markets. Most important perhaps, these representatives establish minimum selling and maximum buying prices for the commodities under their authority. Committee approval is required before large quantities of goods may be bought or sold outside the agreed price limits. 36/

In addition to the control exercised by the regularly scheduled conferences of representatives of Bloc foreign trade enterprises, CEMA directives provide that before any exports or imports of large quantities of raw materials and foodstuffs are made, the appropriate foreign trade enterprise of the Bloc country that is the principal trader in the commodity concerned must be consulted. This arrangement assures that the most recent trade information is available and permits, if possible, the timing of planned exports and imports so as to take advantage of favorable pricing trends in Western markets. 37/ Similarly, CEMA directives require consultation between the interested foreign trade enterprises before making bids or negotiating contracts for the sale of large quantities of machinery or complete installations. 38/ In effect, according to one source, if a Bloc country submits a bid to a Free World trading partner for the export of items that also are manufactured elsewhere in the Bloc, a copy of the offer must be immediately submitted to the other interested Bloc countries "to prevent their unwittingly offering the same items at lower prices." 39/

Reduction of competition among the Satellites is a difficult task to achieve, for the many similarities in their economic structures are necessarily reflected in similar export availabilities and import requirements. In view of this parallelism in patterns of foreign trade, it is unreasonable to expect that the Bloc will rapidly

and agriculture machinery, metal cutting machinery, hammering-press equipment, drilling equipment, duplicating equipment, equipment for the textile and sewing industry, roadbuilding equipment, diesels and diesel aggregates, electric motors of up to 100 kilowatts, generators, power transformers, and electric meters and communication equipment (radio equipment and telephone and telegraph stations).

Imports of textile raw materials (cotton, wool, and artificial fibers), raw hides, nonferrous metals, ferrous metals, rubber, dyes, sugar, grain, citrus, coffee, cocoa beans, metal cutting machinery, and hammering-press equipment.

overcome all rivalries for foreign markets and sources of supply. In fact, a 1958 report by the Permanent Committee for Foreign Trade criticized a number of recurring shortcomings, such as lack of proper coordination between foreign trade enterprises in bidding on projects in Free World countries, failure to consult before contracting for major sales or purchases of key products, and violations of the price limitations agreed on. ^{40/} Scattered information since the date of this report suggests that competition among the Bloc countries in Free World markets continues, although apparently on a smaller scale than before. At the same time, there is increasing evidence that collaboration among the Bloc countries is improving, particularly in exports to underdeveloped countries. It can be tentatively concluded, therefore, that the Bloc is making progress in coordinating its pricing policies and in reducing competition in its trade with the Free World, even though much remains to be done before a united front can be achieved.

B. Assignment of Export and Import Monopolies

A further step in the coordination of Bloc trade with the Free World is the assignment of export and import monopolies to individual Satellites (the USSR apparently does not participate in this phase of the CEMA program). The purpose of such assignments appears to be generally to improve the bargaining power of the Bloc in respect to its Free World trading partners and possibly also to enhance the political impact of Bloc trade on these trading partners. CEMA has recommended monopoly assignments in the past, but no definitive pattern has developed as yet. In some instances, monopoly privileges were allocated on a commodity basis, in others on a geographic basis, and in still others on a commodity and geographic basis combined -- that is, countries were assigned monopoly export or import privileges for specific commodities in specific markets. ^{41/} According to one report, Poland did not export trucks or automobiles to South America, because this market was assigned to Czechoslovakia. ^{42/} The Czechoslovaks, according to the same report, were to discontinue exports of rolling stock to India, a market reserved for Poland. In another report it is claimed that the Poles were instructed to refer inquiries for oil drilling equipment to Rumania rather than to East Germany because Rumania had monopoly rights to export such equipment. ^{43/}

The program of assigning exclusive trading rights in Free World markets does not appear to have been very successful thus far, nor indeed to have been aggressively pursued by the Permanent Committee for Foreign Trade. Individual Satellites continue to promote

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their exports wherever possible in apparent disregard of commodity or geographic monopoly allocations. Thus an official of the Czechoslovak Ministry of Foreign Trade admitted in 1959 that although Hungary was to be the sole Bloc exporter of buses and Poland of certain types of machine tools, Czechoslovakia continued to export its own buses and machine tools through Czechoslovak export companies on an unlimited, worldwide basis. 44/

Even though previous attempts at designating specific Satellites as sole bargaining representatives apparently have been largely ineffective, the ultimate pattern of CEMA coordination of Bloc foreign trade may well point in this direction. As the economic integration of the Satellites progresses on the basis of specialization of production and division of labor, it seems reasonable to expect that the principal producer or consumer of specific commodities will simultaneously act as their principal exporter or importer, subcontracting or reexporting to the other interested Satellites as appropriate. In this manner the bargaining power of the Bloc in Western markets should be improved. At the same time, the economic dependence of the Satellites on the patterns of production and trade developed in the Bloc should increase as their traditional trade ties with the Free World are supplanted by new, Bloc-wide patterns of East-West trade.

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