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A CRACK IN THE CEMA FACADE -- RUMANIA

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A CRACK IN THE CEMA FACADE -- RUMANIA

Significant conflicts of interest over economic policy appear to have arisen between Rumania and other members of the Soviet Bloc's Council for Mutual Economic Assistance (CEMA). The precise nature of these conflicts is not known, but clearly they are related to the direction of future Rumanian industrialization. In particular, they appear to involve Soviet opposition to the Galati steel combine and possibly also pressure on Rumania to take measures to help relieve Bloc agricultural problems. Rumania's leaders apparently regard such developments as a threat to their plans for rapidly broadening the industrial base of the country and consequently are resisting the tendencies in CEMA toward a reduction in national sovereignty over economic policy.

The strengthening of CEMA raises the possibility of conflict and has caused some adverse reaction throughout the Satellites, but apparently only in Rumania has the regime gone on record in opposition to prevailing CEMA doctrine.

1. Evidence of Conflict

Since the Moscow Economic Conference of June 1962 and Khrushchev's visit to Rumania at about the same time, there has been a discernible difference between the tone of Rumanian and other Satellite pronouncements on economic cooperation. Bucharest's press release on the Central Committee plenum of 21-23 November, which apparently was concerned with both the 1963 plan and CEMA matters, was limited to a brief communiqué, in contrast to the more extensive discussions published by other Soviet Bloc countries.

More recent actions by the Rumanian Communist Party have even more directly revealed the regime's discontent with CEMA policies. An enlarged plenary session of the Rumanian Central Committee, held from 5 to 8 March, dealt exclusively with CEMA problems -- a very unusual circumstance. The communiqué issued at the end of the session

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ignored the proposals for a "new stage" of economic cooperation that were made at the Moscow conferences and in subsequent statements by Khrushchev and other leaders. In addition, the communiqué pointedly emphasized the "national independence and sovereignty" of CEMA members and approved the activities of Birladeanu, the Rumanian representative to the CEMA Executive Committee. By contrast, official statements of the other Satellite regimes have emphasized (although somewhat less strongly than Khrushchev) the need to treat the Bloc to a greater extent as an organic economic entity.

According to the CEMA Executive Committee at its February 1963 meeting asked Rumania to make substantial modifications in its economic plans -- "in effect ... to abandon plans for most major new industries and to concentrate on petroleum products, fertilizers, and agriculture." It is reported that Birladeanu opposed this proposal and that he later was supported by the Rumanian Central Committee and by Party and government chief Gheorgiu-Dej, who agreed to send a strong letter of protest to Khrushchev. This position is believed to have been discussed and endorsed by Party organizations throughout the country.

Reports that Rumania was to emphasize mainly agriculture and supporting industries date from Khrushchev's visit to Rumania in June 1962. And, according to the Neue Zuercher Zeitung (Zurich), the areas of disagreement at the December 1962 and February 1963 CEMA meetings centered around proposals to make the decisions of the CEMA Executive Committee binding on all members and to create a joint planning organ.

Another indication of disagreement over Rumania's economic role in the Bloc is the virtual absence of references in Rumanian publications or in those of other Bloc countries to Rumania's specific role in intra-Bloc specialization. All of the other Satellites (except Albania) are said to have agreed, under CEMA recommendations, to "specialize" in a variety of products, but there is no such information on Rumania -- with the exception of petroleum equipment.

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## 2. Doctrinal Issues

The disagreement between Rumania and CEMA probably stemmed originally from a conflict of interest on concrete economic issues, but now also involves the interpretation of CEMA economic doctrine. Rumanian statements in this regard are not in direct contradiction to those of Soviet or other Satellite leaders. They differ noticeably in emphasis, however, and in particular seem to demur from implementing the "new stage" of economic cooperation announced in Moscow last June.

In its March communiqué, the Rumanian Central Committee, although agreeing with the CEMA "Basic Principles" adopted at the June 1962 Moscow Conference, chose to interpret this document as being "in the spirit of the 1960 Moscow declaration of 81 Communist parties" -- a document that stressed the coordination of national plans. Totally ignored were the aspects of the "Basic Principles" that could be considered contrary to the Rumanian position and the communiqué of the June 1962 Moscow conference of Representatives of the Communist and Workers' Parties, which even went somewhat further than the "Basic Principles" in emphasizing the dominance of "organic" development over the mere coordination of national plans. Even in their references to the 1960 declaration, the Rumanians were certainly engaging in selective amnesia. The final phrases of the March communiqué seem to give the Rumanian view of priorities as (a) the development of each socialist country, (b) the gradual reduction of differences in their development levels, and (c) general progress of the entire socialist camp.

Rumanians are certainly not alone in their opposition to the strengthening of CEMA. Measures intended to develop the supranational character of CEMA and correspondingly weaken national sovereignty carry the seeds of dissension in all the Satellites. There has always been a wide gap, however, between principle and implementation in CEMA matters, and CEMA cooperation can bring some real benefits to the member countries. The tendency, therefore, has been to proclaim general agreement on the principles of cooperation so long as these were expressed vaguely enough

- 3 -

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to leave some loopholes, and to deal with each concrete case on its merits. Only in Rumania has the regime itself expressed open opposition to Soviet doctrine on intra-Bloc economic cooperation.

### 3. Economic Issues

The exact nature of the concrete economic issues in this dispute can only be surmised. It has been alleged that the USSR wishes to prevent Rumania's further industrialization, or, which comes to nearly the same thing, that CEMA has asked Rumania to limit its future development to petroleum refining, fertilizers, and agriculture. In fact, CEMA is probably opposing some aspects of Rumanian plans for industrialization, but not the rapid development of industry as such. The principles of CEMA and Soviet doctrine both call for rapid industrialization of all Socialist countries. Moreover, Bulgaria, a country even less developed than Rumania, has a Twenty Year Plan, which was announced after the June Moscow Conference and which provides for an industrialization rapid and broad enough to satisfy all but the most rabid economic nationalist. Quite possibly Rumania, because of its relatively low level of industrialization, is much more interested in diversification of production and in developmental aid from abroad than in product specialization, but the difference in emphasis need not cause overt conflicts except under special circumstances. One plausible set of circumstances would be a Soviet decision to reduce or withhold support from the planned Galati steel combine and, possibly, Bloc pressure on Rumania to increase its allocations for agriculture and to shift part of its agricultural exports from the West to the Soviet Bloc.

#### a. Galati Steel Combine

The Galati steel combine is scheduled to be by far the largest project of the forthcoming Rumanian Five Year Plan (1966-70). Eventually, after all of the various stages have been completed, the plant is supposed to be one of the largest in Europe. Plans for the Galati combine, which would nearly triple the present capacity of the Rumanian steel industry by 1970, are a basic element of Rumanian objectives for industrial development. In particular, future plans for the machine building industry probably depend to an important extent on the steel to be

- 4 -

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obtained from Galati, for these amounts of steel are so large that Rumania would have great difficulty earning enough foreign exchange to import them. Consequently, the Rumanian regime probably considers the Galati combine to be one of the main pillars for building a strong industry and views it with fond nationalistic attachment. It seems certain that the original planning for the Galati plant was undertaken with Soviet blessing and that the USSR promised to deliver much of the equipment for the plant.

In the past year, there have been a number of reports that the USSR has refused to give the support for the Galati plant that it had promised at the outset. Moreover, the Rumanians have signed contracts with French and British firms for \$42 million worth of equipment for Galati, to be delivered in 1964-65, and are negotiating additional contracts of comparable size with Western suppliers. This information strongly suggests that the USSR has put pressure on the Rumanians to curtail the scope or modify the timing of the Galati project, if not to abandon it. Soviet objection to such a key project would inevitably provoke considerable anger and dismay within the Rumanian regime.

The apparent Soviet opposition to Rumanian plans for Galati raises questions as to what direction Rumanian industrial expansion will take -- a question on which Soviet and Rumanian interests might be expected to differ from time to time. It is likely that the USSR has always had doubts as to the economic soundness of the Galati plant and that recent developments in the Bloc have further lowered the priority given to this plant by the USSR. Construction at Galati is just getting under way while emphasis throughout the Bloc is shifting away from the initiation of new construction to the completion of existing investment projects and Bloc production of metallurgical equipment is lagging, thus making the supplying of equipment for Galati difficult. Moreover the principal Bloc producers of steel may now be taking a harder look at long-range plans for expansion, with the growing realization that long-term trends in technology are likely to slow the rise in demand for steel. Whatever the causes, the Rumanian regime probably feels that its national interests are being slighted.

- 5 -

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b. Rumanian Trade with the West

Rumania may also be under attack in the Soviet Bloc for not doing its part to relieve the shortage of agricultural products, especially grains, in the Soviet Bloc. There is no direct evidence of such an attack, but one would be plausible under the circumstances. Since 1959 the share of the West in Rumanian trade has risen from about one-fifth to about one-third. A large part of the increased trade with the West involved an exchange of Rumanian grain for Western machinery and equipment, the share of Western Europe in Rumanian grain exports having risen from about 15 percent in 1959 to more than 60 percent in 1962. Although the Bloc probably favors Rumanian imports of machinery from the West -- especially when these imports consist of products that are in very scarce supply in the Bloc and in which Western technology is superior -- Rumania may have been under some pressure to redirect some of its grain exports to the Bloc. Such pressure is most likely to have come from East Germany and Czechoslovakia, both of which have had to pay for growing imports of foods with scarce Western exchange.

4. Prospects

There are good economic reasons for both Rumania and CEMA to develop a compromise solution to their apparent dispute, but considerable political difficulties stand in the way of such a compromise. Increased trade with the West has given Rumania more flexibility in its dealings with Soviet Bloc countries than it had a few years ago, but, because two-thirds of its trade is still with the Bloc, this flexibility necessarily is limited. For their part, other CEMA members have no reason to oppose Rumanian industrialization and probably would be prepared to offer a solution that would satisfy Rumanian aspirations for rapid industrial growth -- for example, a larger role for Rumania in chemicals and larger exports of steel to Rumania to compensate for a slower growth of the steel industry than originally planned. However, the Rumanian leadership would find it difficult to agree to a compromise, because it is politically committed to the rapid broadening of the country's industrial base, and in particular to the construction of the Galati combine. The regime may also believe that, within limits, its bargaining position

- 6 -

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is favorable. The USSR's determination to exert strong pressure on Rumania is open to question, and, although the other Satellites may disagree with Rumania on particular economic issues, they would be reluctant to support any strong sanctions against Rumania out of concern for their own future position.

Even if the dispute is quickly resolved, however, the apparent Soviet conflict with Rumania presages similar tensions with other Satellites in the future if the USSR is not extremely careful in its use of CEMA as an instrument of Soviet policy. Economic nationalism is by no means a Rumanian monopoly, and rumblings of opposition to any restriction of economic independence are frequently heard in other Satellites. The Satellite regimes on the whole appear to favor closer economic cooperation within the Bloc, feeling that their countries gain on balance, but it is not difficult to imagine situations in which they would strongly oppose CEMA proposals in order to protect their national interest.

- 7 -

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Analysts:

Coord:

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- 8 -

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