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# U.S. RELATIONS WITH THE COUNTRIES OF CENTRAL AND EASTERN EUROPE

## REPORT

PREPARED FOR THE  
SUBCOMMITTEE ON EUROPE AND THE  
MIDDLE EAST

OF THE

COMMITTEE ON FOREIGN AFFAIRS  
U.S. HOUSE OF REPRESENTATIVES

BY THE

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## FOREWORD

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HOUSE OF REPRESENTATIVES,  
COMMITTEE ON FOREIGN AFFAIRS,  
*Washington, D.C.*

This study was prepared by the Library of Congress at the request of the Subcommittee on Europe and the Middle East, chaired by Hon. Lee H. Hamilton, and has been submitted to the Committee on Foreign Affairs.

This report presents an overview of U.S. policy toward the countries of Central and Eastern Europe and the problems facing the region as a whole, discussion of the role of Congress, and eight individual country studies which focus on specific issues and trends in U.S. bilateral relations. Particular attention is given to the important issues which have either required congressional oversight and legislative action or will in the future.

The findings of this study are those of the Foreign Affairs and National Defense Division, Congressional Research Service, Library of Congress, and do not necessarily reflect the views of the members of the Committee on Foreign Affairs.

CLEMENT J. ZABLOCKI, *Chairman.*

(III)







## LETTER OF TRANSMITTAL

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WASHINGTON, D.C., *December 3, 1979.*

HON. CLEMENT J. ZABLOCKI,  
*Chairman, Committee on Foreign Affairs, House of Representatives,  
Washington, D.C.*

DEAR MR. CHAIRMAN: I am transmitting to the Committee on Foreign Affairs a study prepared for the Subcommittee on Europe and the Middle East by the Congressional Research Service of the Library of Congress.

This report focuses on our relations with the countries of Central and Eastern Europe. The study takes an informative look at the region and at each country individually, setting the historical and political context in which to assess our foreign policy and other current problems there. Throughout, the report reviews issues in our relations which have either stimulated congressional oversight or required legislative action.

Central and Eastern Europe have not been a primary priority focus of our post-World War II foreign policy but our policy toward the region has certainly figured significantly in our European, East-West policy. Frequently, our Central/East European policy has simply been a part or a function of our policy toward the Soviet Union. On the other hand, our policy has been evolving so that it is now perceived to be in our national interest to pursue policies toward the countries of Eastern Europe which treat each nation as important in its own right and which seek to make progress where progress is possible. Central and Eastern Europe are also part of the increasing global economic interdependence, and, even though this region's trade with the United States has always been modest, it is nevertheless important to examine the trends involved which have created such things as an increasing debt problem and energy crisis in the countries of Central and Eastern Europe.

This study was requested in order to heighten congressional understanding of our relations with the countries of Central and Eastern Europe and to highlight foreign policy issues in our relations which may require congressional attention or offer Congress opportunities to play a role in the evolution of our relations with these countries.

This report was prepared by Francis T. Miko, Analyst in European Affairs, Congressional Research Service, Library of Congress. In submitting this report, Mr. Miko expressed his personal gratitude and that of the Congressional Research Service to Ambassador Richard Davies, Harry Gilmore, James Glenn, John Starrels, David Barton, John Hardt, and the other workshop participants and reviewers for their most helpful suggestions and comments. He also extends a special note of appreciation to Theresa E. Varela who was responsible for the production of the report.

The analysis presented here is that of the Congressional Research Service and does not necessarily represent the views of the members of the Subcommittee on Europe and the Middle East.

LEE H. HAMILTON, *Chairman,  
Subcommittee on Europe and the Middle East.*







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## U.S. POLICY

Debates over U.S. policy toward the countries of Central and Eastern Europe in the 1980's probably will continue to reflect contending perspectives on American security, economic, and ideological interests in the region. U.S. relations with the Soviet Union have been of major importance to this country's approach to the region and are likely to continue to be in the foreseeable future. But the countries of Central and Eastern Europe can be seen as having very different roles in shaping this relationship. Some analysts see them as primarily a buffer between the Soviet Union and the West. For others, their major significance is as a transmission belt which can be used to broaden the dialog with Moscow and to carry political and economic liberalization to the Soviet Union. From a third perspective, these countries can be seen, foremost, as a Soviet dominated territory from which any Soviet military action against the NATO countries would likely be launched. A fourth group of analysts emphasizes the importance of the region in its own right.

In many important respects, U.S. foreign policy toward Central and Eastern Europe consists of a set of bilateral relationships with quite distinctive countries. Subsequent chapters discuss the character and quality of these individual relationships. The focus of this chapter is on the more comprehensive regionwide issues that face the United States in evolving its policy toward Eastern Europe.

### THE U.S. INTEREST IN CENTRAL AND EASTERN EUROPE

The United States has viewed Central and Eastern Europe primarily in the context of the superpower relationship with the Soviet Union and U.S. security interests in Europe. Situated geographically between Western Europe and the Soviet Union, Eastern Europe has been seen as both a buffer and a transmission belt between East and West, and as the territory from which any potential Soviet military action against NATO countries would likely be launched. The United States has shared with Western Europe an interest in not allowing the area to become the source of major East-West confrontation. This consideration has led the United States to recognize Soviet security interests in Eastern Europe and to exercise restraint in the region.

But the United States has not accepted any exclusive Soviet interest or permanent position in Eastern Europe, although some critics charged that it did so tacitly by signing the Helsinki accords. The United States has generally seen its own interests as being promoted by a loosening of the ties between the East European countries and the Soviet Union, particularly in the military sphere. The current relationship between Eastern Europe and the Soviet Union, one shaped more by Soviet military might than by mutual interest, is seen as a major source of continuing tensions and instability in Europe.



Generally, the so-called Northern Tier countries (Poland, Czechoslovakia, and the German Democratic Republic) are most important from the standpoint of U.S. security interests because these countries and the Soviet troops stationed there pose the greatest potential military challenge to NATO's central region. In the south, the United States has a special interest in Yugoslavia, a country which is not a member of the Warsaw Pact and serves as a neutral buffer between the Soviet Union and NATO's southern flank.

Along with its security interest, the United States has a growing economic interest in Eastern Europe. The region represents a limited, but relatively untapped, market for U.S. products, particularly in the areas of agriculture and technology. Although trade between the United States and individual East European countries has risen rapidly in recent years, the United States is still well behind many of the Western industrialized nations, especially West Germany and most recently Japan, in economic relations with Eastern Europe. While the interest in expanded trade is reciprocated by the East European countries, the potential for growth is presently limited by U.S. trade restrictions and the growing East European trade deficit and hard currency debt. Even with the further expansion of trade, the East European countries will remain secondary U.S. trading partners. Poland, Yugoslavia, Romania, and Hungary are the main focus of current U.S. economic interest, although the advanced economies of the German Democratic Republic and Czechoslovakia may have the greatest future trade potential due to their higher level of economic development. But, in addition to the purely economic benefits of expanded trade relations, the United States sees trade as a means of enhancing political relations and encouraging greater political and economic autonomy in individual countries.

BASIC DATA ON COUNTRIES OF EASTERN EUROPE

|                                      | Area (square<br>kilometers) | Population           | Annual<br>population<br>increase<br>(percent) | GNP (billions<br>of dollars) | Per capita<br>GNP | Real growth<br>rate in 1977<br>(percent) |
|--------------------------------------|-----------------------------|----------------------|-----------------------------------------------|------------------------------|-------------------|------------------------------------------|
| Albania.....                         | 28,749                      | 2,626,000<br>(1979)  | 2.2                                           | \$1.2<br>(1972)              | \$520             | -----                                    |
| Bulgaria.....                        | 111,852                     | 8,892,000<br>(1979)  | .5                                            | 24.8<br>(1978)               | 2,799             | 4.4                                      |
| Czechoslovakia.....                  | 127,946                     | 15,240,000<br>(1979) | .7                                            | 70.7<br>(1978)               | 4,673             | 2.5                                      |
| German Democratic Re-<br>public..... | 108,262                     | 16,793,000<br>(1979) | .1                                            | 81.0<br>(1978)               | 4,834             | 3.3                                      |
| Hungary.....                         | 92,981                      | 10,735,000<br>(1979) | .4                                            | 32.0<br>(1978)               | 2,998             | 2.6                                      |
| Poland.....                          | 312,354                     | 35,391,000<br>(1979) | 1.0                                           | 108.3<br>(1978)              | 3,094             | 2.7                                      |
| Romania.....                         | 237,503                     | 22,057,000<br>(1979) | .8                                            | 67.5<br>(1978)               | 3,100             | 4.2                                      |
| Yugoslavia.....                      | 255,892                     | 22,174,000<br>(1979) | .9                                            | 55.3                         | 2,517             | 5.9<br>(1971-78)                         |

Source: U.S. CIA. National Basic Intelligence Factbook, July 1979.



## U.S. TRADE WITH COUNTRIES OF EASTERN EUROPE

[In millions of U.S. dollars]

| Country                         | 1977    | 1978    | January-June<br>1979 |
|---------------------------------|---------|---------|----------------------|
| Exports:                        |         |         |                      |
| Albania.....                    | 2.2     | 4.5     | 4.2                  |
| Bulgaria.....                   | 23.9    | 48.1    | 31.1                 |
| Czechoslovakia.....             | 74.0    | 105.4   | 83.2                 |
| German Democratic Republic..... | 36.1    | 170.1   | 138.3                |
| Hungary.....                    | 79.7    | 97.7    | 41.7                 |
| Poland.....                     | 436.6   | 677.0   | 274.9                |
| Romania.....                    | 259.4   | 317.4   | 259.7                |
| Yugoslavia.....                 | 357.0   | 474.9   | 379.8                |
| Total exports.....              | 1,268.9 | 1,895.1 | 1,212.9              |
| Imports:                        |         |         |                      |
| Albania.....                    | 3.4     | 3.5     | 5.1                  |
| Bulgaria.....                   | 18.0    | 19.1    | 23.1                 |
| Czechoslovakia.....             | 36.6    | 58.0    | 24.5                 |
| German Democratic Republic..... | 16.8    | 35.3    | 19.2                 |
| Hungary.....                    | 46.6    | 68.5    | 48.4                 |
| Poland.....                     | 329.1   | 433.9   | 211.6                |
| Romania.....                    | 233.3   | 346.6   | 167.5                |
| Yugoslavia.....                 | 333.0   | 394.6   | 210.2                |
| Total imports.....              | 1,046.3 | 1,335.3 | 801.8                |

Source: U.S. Department of Commerce.

A third category of U.S. interests is more difficult to define than are those of security and trade but is, nevertheless, a major component of U.S. policy. Traditionally, there has been a strong element of idealism shaping U.S. attitudes toward the region. East European aspirations for greater individual freedom and national self-determination have struck a responsive chord in the United States.

The U.S. interest in promoting human rights and greater democracy in Eastern Europe has strong domestic support among the estimated 15 million Americans of East European origin. Polish-Americans make up the largest share of this total but significant numbers have emigrated to the United States from Czechoslovakia, Hungary, and Yugoslavia. Thousands of immigrants have also arrived in the United States from other East European countries. Ethnic representation is one factor in determining U.S. foreign policy and East European immigrants have had an impact. Both the Democratic and Republican Parties have established sections to appeal to Americans of different backgrounds. The Democratic National Committee has a nationalities division and since 1971 the Republican Party has included a heritage group. Intense rivalry between the two parties for East European ethnic votes in both Presidential and congressional elections has placed Eastern Europe on the campaign platforms of both parties.

Yet, it can be argued that the East European ethnic influence on actual U.S. policies has been more modest than the numbers of East European-Americans might suggest. Soviet critics of U.S. policies argue that campaign rhetoric has generally had little relationship to the policies carried out by either party once in power. They maintain that exaggerated promises, particularly those of "rolling-back Com-



munism" and "liberation" of Eastern Europe in the early 1950's, created misconceptions at home and abroad. And, they assert that the emptiness of such rhetoric was demonstrated by the U.S. reaction to the Hungarian uprising of 1956.

Several reasons have been suggested for the relative weakness of the "East European lobby" when it comes to influencing U.S. foreign policy. A study by Stephen A. Garrett suggests that only a small percentage of East European-Americans vote primarily on the basis of foreign policy platforms and that among organizations actively concerned with policy toward Eastern Europe there is, at times, considerable rivalry and little unity of purpose.<sup>1</sup> East European-American organizations have not been able to deliver large blocks of votes, as other minority and special interest lobbies have done. On many issues they have been split. Finally, some of these groups have been accused of taking a narrow approach to U.S. foreign policy, although such criticism may be no more applicable to them than to other ethnic and special interest groups.

### THE EVOLUTION OF U.S. POLICY

In the 1950's the overall emphasis of U.S. foreign policy was on containment of Soviet and Communist influence, particularly in Europe. During this period, the East European countries were viewed as Soviet satellites and U.S. relations with the individual countries simply followed or were a reflection of U.S. relations with the Soviet Union. The United States espoused policies of "rolling back" communism and "liberating" Eastern Europe, but never put those policies into effect. Yugoslavia, which broke away from the Soviet bloc in 1948, was given special treatment as the United States poured in aid to help Tito's government resist any Soviet efforts to bring the country back into Moscow's sphere.

A growing diversity among the East European countries emerged (in the aftermath of de-Stalinization and the worsening Sino-Soviet rift) in the late 1950's and early 1960's. U.S. policy under the Eisenhower, Kennedy, and Johnson administrations also began dealing with each country more independently in the hope of loosening East European ties to the Soviet Union. This "bridge building" policy (so named by President Lyndon Johnson) lost support after the 1968 Soviet in-

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<sup>1</sup> Garrett, Stephen, "Eastern European Ethnic Groups and American Foreign Policy," *Political Science Quarterly*, vol. 93, No. 2, summer 1978: 301-23.



## STATUS OF U.S. RELATIONS WITH THE COUNTRIES OF EASTERN EUROPE

|                                                                     | Albania | Bulgaria          | Czecho-<br>slovakia | German<br>Democratic<br>Republic | Hungary           | Poland            | Romania           | U.S.S.R.         |
|---------------------------------------------------------------------|---------|-------------------|---------------------|----------------------------------|-------------------|-------------------|-------------------|------------------|
| Diplomatic recognition-----                                         | No      | Yes               | Yes                 | Yes                              | Yes               | Yes               | Yes               | Yes              |
| MFN tariff treatment-----                                           | No      | No                | No                  | No                               | <sup>1</sup> Yes  | Yes               | <sup>1</sup> Yes  | ( <sup>2</sup> ) |
| Eximbank facilities-----                                            | No      | No                | No                  | No                               | <sup>1</sup> Yes  | Yes               | <sup>1</sup> Yes  | ( <sup>3</sup> ) |
| OPIC <sup>4</sup> -----                                             | No      | No                | No                  | No                               | No                | No                | <sup>1</sup> Yes  | No               |
| Maritime agreement <sup>5</sup> -----                               | No      | No                | No                  | No                               | No                | No                | Yes               | Yes              |
| Double Taxation Treaty <sup>6</sup> -----                           | No      | No                | No                  | No                               | ( <sup>7</sup> )  | Yes               | Yes               | Yes              |
| Consular convention <sup>8</sup> -----                              | No      | Yes               | ( <sup>7</sup> )    | ( <sup>9</sup> )                 | Yes               | Yes               | Yes               | Yes              |
| Civil aviation agreement <sup>10</sup> -----                        | No      | No                | Yes                 | No                               | Yes               | Yes               | Yes               | Yes              |
| Default bonds outstanding-----                                      | No      | ( <sup>11</sup> ) | Yes                 | Yes                              | No                | No                | No                | Yes              |
| Financial claims outstanding-----                                   | Yes     | No                | Yes                 | Yes                              | No                | Yes               | Yes               | Yes              |
| Johnson Act applicability <sup>12</sup> -----                       | No      | No                | Yes                 | ( <sup>13</sup> )                | No                | Yes               | No                | Yes              |
| Fisheries agreement <sup>14</sup> -----                             | No      | Yes               | No                  | Yes                              | No                | Yes               | Yes               | Yes              |
| Science, technology agree-<br>ment <sup>15</sup> -----              | No      | ( <sup>9</sup> )  | ( <sup>9</sup> )    | No                               | Yes               | Yes               | Yes               | Yes              |
| Joint Commercial Commis-<br>sion <sup>16</sup> -----                | No      | No                | No                  | No                               | ( <sup>9</sup> )  | Yes               | Yes               | Yes              |
| Joint Trade Council (private) <sup>17</sup> -----                   | No      | ( <sup>18</sup> ) | ( <sup>18</sup> )   | Yes                              | ( <sup>18</sup> ) | ( <sup>18</sup> ) | ( <sup>18</sup> ) | Yes              |
| Trade agreement-----                                                | No      | No                | No                  | No                               | Yes               | No                | Yes               | ( <sup>2</sup> ) |
| Long-term economic coop-<br>eration agreement <sup>19</sup> -----   | No      | No                | No                  | No                               | No                | No                | Yes               | Yes              |
| Foreign business represen-<br>tation offices permitted-----         | No      | Yes               | Yes                 | Yes                              | Yes               | Yes               | Yes               | Yes              |
| Foreign equity investment<br>with local partner per-<br>mitted----- | No      | No                | No                  | No                               | Yes               | Yes               | Yes               | No               |

<sup>1</sup> Subject to terms of the Trade Act of 1974.

<sup>2</sup> Trade agreement extending MFN signed in October 1972, but not in force because of lack of U.S. legislative authority for "unconditional" MFN treatment, as provided for in the agreement. Certain other provisions are being implemented by both sides.

<sup>3</sup> Credits available from October 1972 to January 1975. Pursuant to Export-Import Bank legislation and title IV of the Trade Act of 1974, Bank facilities are no longer available, but limited facilities could be restored if accord is reached on certain provisions of the Trade Act.

<sup>4</sup> Overseas Private Investment Corporation insures U.S. private investments against certain political risks in certain countries and finances the investment and/or development of eligible projects of U.S. investors in these countries.

<sup>5</sup> These agreements provide for a decreased notification time necessary for visits of each nation's vessels to the other's ports.

<sup>6</sup> Designed to avoid the double taxation of business income, personal service income, and investment income.

<sup>7</sup> Negotiated. Ratification pending by respective governments.

<sup>8</sup> Provides for access by U.S. embassy personnel to U.S. nationals who might be detained in a foreign country.

<sup>9</sup> Under negotiation.

<sup>10</sup> Permits and establishes civil aviation between countries.

<sup>11</sup> Temporary settlement reached with Foreign Bondholders Protective Council September, 1978.

<sup>12</sup> Johnson Act prohibits certain financial transactions by private persons in the United States involving foreign governments which are in default in the payment of their obligations to the United States. The Attorney General has ruled that the act does not prohibit extensions of credit for export financing within "the range of those encountered in commercial sales." For more definitive legal interpretations of the issues raised by the act, involved businesspersons should seek legal counsel.

<sup>13</sup> Subject to legal interpretation.

<sup>14</sup> Allows for catch allocations within U.S. territorial waters.

<sup>15</sup> Such agreements facilitate scientific information exchange and cooperation.

<sup>16</sup> Government-to-government bodies established to discuss and negotiate outstanding trade issues.

<sup>17</sup> The National Council for United States-China Trade is a private organization of U.S. firms. While it is not a joint council since it has no PRC participants, it does have a close working relationship with its PRC counterpart, the China Council for Promotion of International Trade.

<sup>18</sup> Under auspices of U.S. Chamber of Commerce, 1615 H St., NW., Washington, D.C. 20062; Telephone: (202) 659-6118

<sup>19</sup> Such agreements are aimed at facilitating long term business and economic cooperation.

Source: U.S. Department of Commerce, East-West Trade Update: A Commercial Factsheet for U.S. Business, January 1979, p. 16 (OBR 79-02).



vasion of Czechoslovakia where the policy had seemed to hold the most promise. Under the Nixon and Ford administrations' détente policies, relations with the Soviet Union were given primacy. Steps were initiated to improve relations with all of the East European countries under the umbrella of United States-Soviet détente. If there was any differentiation in policy it was demonstrated only toward Romania whose growing foreign policy independence, particularly its cooperative attitude on the Middle East, was appreciated. Relations were already good with Poland and progress was being made in relations with Czechoslovakia, until Congress nullified a claims settlement signed in 1974. Other congressional action such as the Jackson-Vanik amendment of the Trade Act of 1974 (linking trade benefits to emigration policies) set conditions that slowed further improvement of relations with Eastern Europe.

The Carter administration policy toward Eastern Europe was spelled out in testimony before the House Foreign Affairs Committee's Subcommittee on Europe and the Middle East by Deputy Assistant Secretary of State for European Affairs William Luers in 1978.<sup>2</sup> Mr. Luers remarked in his testimony that the State Department was unable to find any previous extensive testimony on U.S. East European policy. Mr. Luers enumerated four priorities of that policy: (a) Recognition and support for the individuality of each East European country in its approach to domestic and foreign policy; (b) treatment of each nation as a sovereign country while taking into account the political and geographic realities in the area; (c) improvement of relations through the expansion of human contacts, trade, institutional cooperation, and the freer flow of information; and (d) recognition of the limits of U.S. influence in the region and the need to pursue an East European policy in ways that contribute to the security of Europe.

The specific policies outlined by Mr. Luers in his congressional testimony included: (1) Expansion of bilateral relations in the diplomatic, cultural, and scientific areas with those countries that are receptive; (2) maintenance of high level contacts with the leaders of countries with which U.S. relations have improved sufficiently; (3) efforts to continue the implementation of the Helsinki Final Act, particularly in the area of human rights and family reunification; (4) promotion of constructive East European policies regarding crises in different regions of the world, especially in the Middle East and Africa (also opposition to East European participation in Soviet-Cuban military activities in Africa); (5) improvement of economic relations and expansion of bilateral trade; (6) engagement of Eastern Europe in the international economic system (including the Multilateral Trade Negotiations (MTN) and the North-South dialog); and (7) continuing efforts to reach agreement at the Vienna talks on mutual and balanced force reductions (MBFR).

<sup>2</sup> U.S. Congress. House. Committee on International Relations, Subcommittee on Europe and the Middle East. U.S. Policy toward Eastern Europe, hearings, 95th Congress, 2d session, Sept. 7 and 12, 1978. Washington, U.S. Government Printing Office, 1979, pp. 35-39.



This policy does not represent a fundamental departure from earlier U.S. policy. There is, however, greater attention to domestic policies of individual East European countries, particularly their performance on human rights and family reunification problems. This emphasis has had a modest impact on bilateral relations with individual countries. Romania and Poland already enjoyed extensive relations with the United States prior to the current administration and these relations have remained good. Relations with Yugoslavia, the East European country previously closest to the United States, had deteriorated somewhat in the early 1970's, particularly as a result of Yugoslav assistance to the Arab states in the Middle East war of 1973. After 1977, closer relations were restored. The greatest progress under the new administration has been in relations with Hungary. Because of its relatively liberal domestic policies, Hungary has been given a higher priority in U.S. bilateral efforts. On the other hand, relations with Czechoslovakia have chilled.

### THE ROLE OF CONGRESS

Congress has in the last decade played an important role in the conduct of U.S. policy toward the countries of Eastern Europe. Congressional activity has included significant legislation, numerous hearings on general U.S. policy, as well as specific issues arising in relations. Visits to Eastern Europe by Members of Congress have opened new channels of high-level official communication between the United States and East European governments. In its policy-monitoring role, Congress has taken a particular interest in human rights considerations and has put pressure on successive administrations to respond to violations of civil and religious liberties in individual countries. Both the House and Senate have been sensitive to the causes of East European-American ethnic groups and have provided them with a forum for airing their views on U.S. policy, and on human rights conditions in specific countries.

The main levers for congressional influence over U.S. policy toward Eastern Europe have been legislation granting or withholding trade benefits (most-favored-nation status, Export-Import Bank and Commodity Credit Corporation credits), export control legislation, appropriations for international broadcasting and other activities related to Eastern Europe, and the Senate's treaty ratification powers.

The Trade Act of 1974 had a profound impact on relations with Eastern Europe. The Jackson-Vanik amendment to the act made MFN and credits to Communist countries not yet enjoying preferential trade treatment subject to a determination by the President, that after receiving formal assurances from Communist governments, those countries were allowing free emigration. Congressional approval was required for a Presidential waiver. This legislation did not affect Yugoslavia or Poland which already received U.S. trade preferences. The restrictions were waived in the cases of Romania (1975) and Hungary (1978). These waivers have had to be renewed annually. Czechoslovakia, the German Democratic Republic, Bulgaria, and Albania



(as well as the Soviet Union) are still subject to the trade restrictions. Because the waiver provision of the legislation requires an annual extension, Congress has established for itself an ongoing monitoring role. In 1979, legislation was introduced, H.R. 1835 (AuCoin) and S. 339 (Stevenson) that would amend the Trade Act of 1974 by removing the requirement that the President receive formal assurances from a Communist government before using the waiver authority and extending the waiver period from 1 year to 5 years. The bills have not yet been reported out of committee.

Another example of congressional involvement was the action nullifying the United States-Czechoslovak claims settlement of 1974 and in effect bringing to a halt the movement toward improved United States-Czechoslovak relations begun under the Nixon administration. The Trade Act of 1974 contained a provision tying trade preferences for Czechoslovakia to the achievement of a renegotiated claims settlement.

Export control legislation has also had a significant impact on U.S. relations with Eastern Europe. The Export Administration Act Amendments of 1977 have encouraged a more multifaceted approach to different countries. They changed the emphasis of national security controls from exports to "Communist countries" to exports to "countries which pose a threat to U.S. national security." The effect of this change was to allow the President greater flexibility in applying the controls to individual countries.<sup>3</sup> Now Congress is considering further changes in the export control legislation. H.R. 1835 (AuCoin) and S. 339 (Stevenson) would raise the ceiling for loans to Communist countries which require a Presidential determination of national interest from \$50 million to \$100 million. In addition, they would replace the current \$300 million ceiling on Export-Import Bank financing of trade with the Soviet Union with a \$2 billion ceiling for any Communist country.

Human rights and emigration, particularly of Jewish minorities, have received considerable congressional attention. Numerous bills have been introduced reflecting concern over human rights violations in East European countries and over the plight of individual human rights and religious activists. In 1976 Congress set up a joint legislative-executive branch Commission on Security and Cooperation in Europe to monitor the implementation of the 1975 Helsinki Final Act with its provisions on human rights and East-West cooperation. Members of the House and Senate were on the U.S. delegation to the Belgrade meeting (1977-78) and are expected to play an active role at the 1980 Madrid meeting, the major upcoming conference on East-West relations.

A congressional resolution calling on the U.S. delegation at Belgrade to press the issue of human rights was attached to the Foreign Relations Authorization Act for fiscal year 1978 (Public Law 95-105). Other congressional resolutions were introduced urging the United States to press for fuller compliance by the East European governments with the terms of the Helsinki Final Act.

Congress has taken considerable interest in the broadcast activities of Radio Free Europe (broadcasting to Eastern Europe) and Radio

<sup>3</sup> U.S. Congress, Joint Economic Committee, *Issues in East-West Commercial Relations, Overview*, by Ronda Bresnick. Washington, U.S. Government Printing Office, 1979, pp. 4-6.



Liberty (broadcasting to the Soviet Union), removing them from under the U.S. Central Intelligence Agency and placing them under a specially created Board for International Broadcasting. Recent congressional action on authorization and appropriations has demonstrated general support for their operations plus a desire to economize and streamline them and increase their effectiveness. The Foreign Relations Authorization Act of 1979 (Public Law 95-426), includes a provision barring the two radios from allowing any Communist countries to use their broadcast facilities, unless comparable opportunities are provided by the other country.

Congressional action was taken on a number of other specific issues affecting Eastern Europe, including legislation to provide earthquake relief for Romania in 1977. In 1977 Congress also played an active role in the debate over the return of the Crown of St. Stephen to Hungary.<sup>4</sup> After receiving testimony from both proponents and opponents of the crown's return, a number of bills opposing the return were considered by the House Foreign Affairs Committee but no action was taken. An attempt to bring one of those bills, H.R. 7983, before the House without committee recommendation was defeated, and the Congress took no action to block the Crown's return. A U.S. delegation, which included a few Members of Congress returned the Crown to Budapest in January 1978.

East European fishing fleets off the U.S. coast were affected by the Fishery Conservation and Management Act of 1976 (Public Law 94-265) allowing foreign fishing vessels to operate within the U.S. 200-mile limit only upon conclusion of a "governing international fishery agreement." Such agreements were signed with Poland, the German Democratic Republic, Romania, and Bulgaria in 1977.

The congressional agenda on Eastern Europe beyond the 96th Congress will include significant issues involving economic relations. There have been some suggestions that the United States should reevaluate Trade Act legislation linking MFN and credits to human rights. While there may be some support for eliminating such linkage, current congressional interest seems to focus more on modifications in the waiver provisions to give the President greater flexibility in their application. This interest is reflected in the previously discussed AuCoin and Stevenson bills, with their multiyear MFN proposals.

Congressional interest in the administration of export controls is likely to continue in the coming years. The main objective will be to insure that the United States does not weaken its security position through the export to Eastern Europe of vital strategic technology while, at the same time, insuring that legislation does not simply punish U.S. business by barring U.S. exports, which will otherwise be supplied by U.S. competitors.

A major area which could require further congressional attention involves the financing of United States-East European trade. As the East European governments face mounting problems of servicing their hard currency debts, the question of ceilings on U.S. Government credits (addressed in the AuCoin and Stevenson bills) becomes more significant. Also, there is a question of whether and under what circumstances it would serve U.S. interests to provide assistance to individual East European countries to help alleviate the debt problem.

<sup>4</sup> See individual sections.



A number of bilateral agreements may require congressional action, if and when diplomatic negotiations are concluded. The questions of Czechoslovak and East German claims, improvement of trade relations with Czechoslovakia, the German Democratic Republic, and Bulgaria, and arms sales or aid to Yugoslavia are discussed in the individual country sections.

The Madrid meeting of the Conference on Security and Cooperation in Europe may be another item on the congressional agenda. The CSCE Final Act deals with a broad set of issues of interest to the United States. In the past, congressional interest has focused primarily on the human rights, emigration, and family reunification provisions of the accords. These interests are likely to be vigorously pursued by the United States at Madrid. Since the Congress will be actively involved in developing the strategy for the meeting, it may also consider the possibilities for furthering U.S. interests under the security, economic, and other sections of the Final Act.

### FUTURE POLICY OPTIONS

Several general directions for U.S. policy toward Eastern Europe in the coming years have been suggested. These reflect in many cases the different American perceptions of the importance to the United States of Eastern Europe, of the extent to which relations with the region should be subordinated to those with the Soviet Union, and of the extent to which the status quo in Europe serves U.S. interests.

Within a broad range of proposed policies, four basic approaches toward Eastern Europe can be identified. Each suggests a different set of specific policy guidelines.

**First:** One suggested approach is to subordinate relations with Eastern Europe to those with the Soviet Union in order to preserve superpower harmony. This approach implies treating countries of the region more evenhandedly than in the past, without regard for differences in their domestic or foreign policies. It accepts the region as being within the Soviet sphere of influence. Proponents of this approach feel that the modest U.S. interest in Eastern Europe does not justify actions in the region that might adversely affect relations with the Soviet Union. They believe that attempts to deal selectively with the countries of Eastern Europe will be seen by the Soviets as attempts to undermine their own position there. Advocates of this approach favor strict noninterference in the internal affairs of the individual countries and in East European regional affairs. They favor a multilateral approach to East-West negotiations and across-the-board efforts to improve relations with the East. Some proponents would apply this policy even to nonaligned Yugoslavia with the rationale that it is a Communist country in which the Soviet Union has greater interests than does the United States. Others would exclude Yugoslavia from this approach.

*Specific policies suggested by the first approach.*—Proponents would favor U.S. movement without delay to grant the Soviet Union, Czechoslovakia, the German Democratic Republic, and Bulgaria those economic concessions (such as MFN, access to Export-Import Bank credits) which have already been granted to Yugoslavia, Poland, Romania and Hungary, if possible, through repeal of discriminatory



legislation such as the Jackson-Vanik amendment to the Trade Act of 1974 or, if not, then by Presidential waiver. In the future, advocates of this approach would oppose any benefits to individual East European countries which are not granted to the Soviet Union, any special relationships with the more autonomous countries, such as Romania, or the more liberal in their domestic policies, such as Hungary. They would support general policies of liberalizing trade regulations and eliminating export controls toward all the countries and would oppose future attempts to extract a price by linking such policies to East European concessions on emigration, human rights, and other matters. Proponents of this approach would favor discontinuation of U.S. international broadcasting activities such as Radio Free Europe and Radio Liberty which are viewed as an irritant in relations with the Soviet and East European governments. They would condemn, as confrontational, the approach of the United States at the 1977 Belgrade Followup Meeting to the Conference on Security and Cooperation in Europe and would oppose use of the 1980 Madrid meeting as a forum for raising contentious human rights issues with the Soviet Union and Eastern Europe. They would generally favor letting the West Europeans take the lead at Madrid and in relations with Eastern Europe, generally.

Second: Another approach is to conduct a differentiated policy toward individual countries aimed at encouraging internal liberalization, a commitment to East-West interdependence in Eastern Europe and ultimately greater political, economic, and foreign policy independence from the Soviet Union. This approach would treat individual countries independently, taking into account the diversity that exists in the region. It suggests a continuation of the policy of according preferential treatment to countries that act more independently of the Soviet Union in domestic and foreign policies in ways that coincide with U.S. interests—security, economic, or humanitarian. Proponents support cautious attempts at loosening Soviet-East European bonds but only to the extent that these do not risk confrontation with the Soviet Union. They believe that the United States is justified both morally and by virtue of its self-interest to encourage diversity in the region. By rewarding those governments that conduct more constructive foreign policies and show greater respect for human rights, they believe that the United States can prod other countries in similar directions.

*Specific policies suggested by the second approach.*—For the present, proponents of this approach would argue that the United States should restrict preferential trade treatment to those East European countries that now have it. In the case of these countries (Yugoslavia, Poland, Romania, and Hungary) they would support further liberalization of U.S. trade and export control policies. At the same time, they would favor subtle pressure on Romania to liberalize its internal policies. They favor an expanded dialog with the other countries (Czechoslovakia, the German Democratic Republic, and Bulgaria) with the aim of removing differences blocking improved relations. They support a positive linkage between economic relations and human rights, though not necessarily legislation such as the Jackson-Vanik amendment to the Trade Act of 1974 which so specifically ties MFN and credits to emigration policy.



Proponents of this approach also favor dealing with the countries of Eastern Europe on a bilateral basis to the extent possible. They favor expanded economic cooperation with some countries but would oppose military cooperation, even with the more autonomous ones, except possibly Yugoslavia. They would support continued U.S. international broadcast activities by Radio Free Europe and the Voice of America, as long as these broadcasts are not too provocative. They view the Helsinki framework and the upcoming Madrid meeting as an ideal forum for encouraging liberalization in Eastern Europe and expanding East-West contacts and favor an active U.S. role at the conference, though they would view another East-West confrontation over human rights as being counterproductive.

Third: Another school of thought also favors a differentiated approach toward Eastern Europe but sees the importance of the region more in terms of the superpower balance. Proponents emphasize differences between the Soviet Union and East European countries and favor exploiting Soviet vulnerabilities in the region with the aim of weakening the Soviet Union. This group sees a degree of unrest, instability, and tension in the area as serving the security interests of the United States, although it stops short of recommending U.S. actions that might cause a Soviet backlash and bring East Europe under tighter Soviet control.

*Specific policies suggested.*—Proponents of this approach give primacy to U.S. relations with Yugoslavia and Romania, the two East European countries willing to openly oppose Soviet foreign policies and favor continued preferential treatment and expanded support for the two governments. They see less benefit in giving preferences to Poland and Hungary which, despite their more liberal domestic policies, loyally support Soviet foreign policy positions hostile to the United States. They would support continued MFN, credits, and relaxed export controls mainly for Yugoslavia and Romania. They would view the purpose of both U.S. broadcast activities and the American role at Madrid as being that of encouraging political dissent in Eastern Europe.

Fourth: A final approach is to subordinate relations with the East European governments to those with the Soviet Union and to work aggressively to weaken the position of all the East European Communist governments. Proponents of this approach are generally unimpressed with the extent of diversity that exists within what they still view as very much a Soviet dominated bloc. They argue that the similarities among the governments outweigh by far the differences. They suggest that the economic and political changes that have been introduced are modest and tactical in nature. There is concern among proponents of this approach that the Soviet Union might try to gain through individual East European countries the concessions from the West that it cannot get on its own. As long as the Soviet Union continues to dominate the region, they recommend dealing with East European governments, with the exception of Yugoslavia, essentially as clients of the Soviet Union.

*Specific policies suggested.*—Proponents of this approach advocate limiting dealings and maintaining distance from the East European governments, including that of Romania, in order not to enhance their stature or respectability. They generally oppose expanded trade and



cooperation unless a sufficient price is extracted in areas of U.S. security interests. They favor much tighter restrictions on the transfer of U.S. technology to Eastern Europe. They favor far more aggressive U.S. broadcasting activities to compete with the governments of Eastern Europe for the minds of their populations and to encourage unrest and weaken the governments.



## REGIONAL TRENDS IN EASTERN EUROPE

### THE POSITION OF THE SOVIET UNION

The Soviet Union remains the dominant outside power in Eastern Europe but its relations with the individual countries are assuming growing complexity. The Soviet Union continues to press for tight political, military, and economic integration but is opposed by the growing force of East European nationalism.

Yugoslavia and Albania have divorced themselves from the Soviet alliance system. In the other countries, the main element holding together the alliance continues to be Soviet military power. The Soviet Union maintains 31 divisions in Eastern Europe: 20 divisions in the German Democratic Republic, 2 in Poland, 5 in Czechoslovakia, and 4 in Hungary. No Soviet troops are stationed in Romania or Bulgaria. In addition, the Soviet Union has 64 divisions in the Western U.S.S.R., within quick reach of Eastern Europe.<sup>1</sup> These Soviet forces serve the dual purpose of defense against NATO and of maintaining control in Eastern Europe.

The Soviet Union also has a series of bilateral defense agreements with each of the countries in the alliance establishing close links between Soviet armed forces and those of individual East European countries and subordinating the forces of the latter to Soviet command in time of war. The Soviet Union has claimed, since the Czechoslovak invasion of 1968, a right and duty to intervene in any East European Communist country where the system is threatened.<sup>2</sup> The West has labeled this the "Brezhnev Doctrine."

The Warsaw Treaty Organization, established in 1955, is the chief instrument of Soviet-East European military integration. In addition to the Soviet Union, the WTO includes all the Communist East European countries except Yugoslavia (which was never a member) and Albania (which left the pact in 1968). Romania has become a less active member in recent years and has repeatedly balked at Soviet efforts to bolster Pact military integration. At a 1978 WTO summit meeting in Moscow, Romania claimed to have rejected proposals aimed at strengthening the Pact's joint command structure, and in addition publicly claimed that it had rejected Soviet proposals for increasing the defense budgets of WTO member nations.<sup>3</sup> While none of the other East European countries publicly sided with Romania, there may have been considerable sympathy with the Romanian position at a time when all the countries were facing difficult economic problems even without additional defense burdens.

<sup>1</sup> The Military Balance, 1978-79, London, International Institute for Strategic Studies, 1978, p. 9.

<sup>2</sup> In a speech delivered at the Fifth Congress of the Polish United Workers Party in Warsaw, Nov. 12, 1968, Soviet leader Brezhnev stated: "When the internal and external forces hostile to socialism seek to divert the development of any socialist country to the restoration of the capitalist order, when a threat to the cause of socialism in that country, a threat to the security of the socialist community as a whole, emerges, this is no longer only a problem of the people of that country but also a common problem, concern for all socialist states."

<sup>3</sup> Romanian President Ceaucescu delivered five speeches between Nov. 25 and Dec. 1, 1978, publicizing the stand he took at the meeting without divulging the specifics of the Soviet proposals. (See FBIS daily reports for Eastern Europe.)



EAST EUROPEAN ARMED FORCES<sup>1</sup>

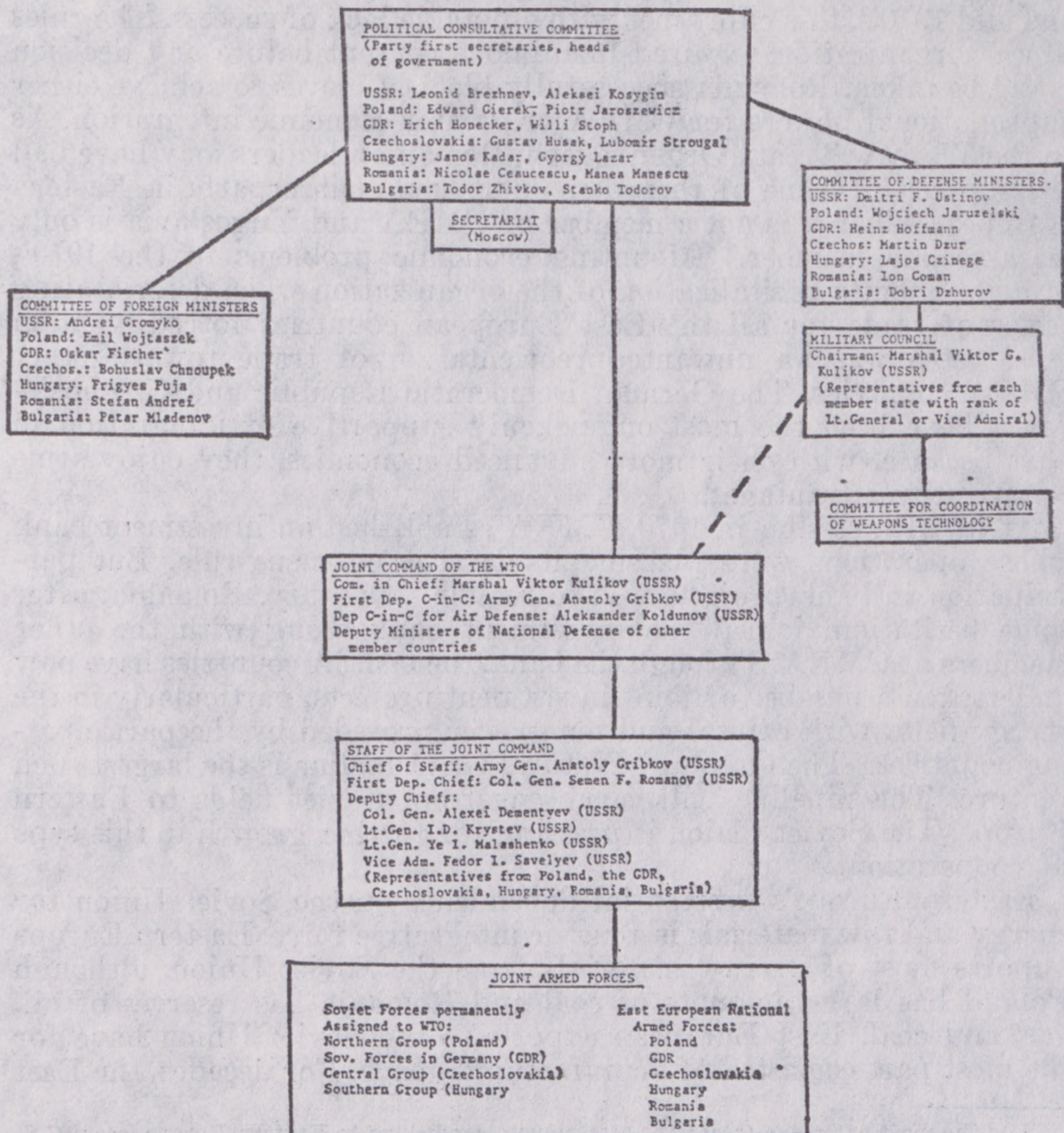
|                                      | Albania        | Bulgaria       | Czechoslovakia | German Democratic Republic | Hungary       | Poland        | Romania       | Yugoslavia    |
|--------------------------------------|----------------|----------------|----------------|----------------------------|---------------|---------------|---------------|---------------|
| WTO member.....                      | No             | Yes            | Yes            | Yes                        | Yes           | Yes           | Yes           | No            |
| Defense budget (millions).....       | \$154          | \$432          | \$1,820        | \$3,150                    | \$658         | \$2,255       | \$923         | \$2,330       |
| As percent of GNP <sup>2</sup> ..... | 10.2<br>(1976) | 10.5<br>(1977) | 6.0<br>(1977)  | 6.8<br>(1977)              | 6.0<br>(1977) | 7.1<br>(1977) | 5.4<br>(1977) | 4.7<br>(1977) |
| Total Armed Forces.....              | 41,000         | 150,000        | 186,000        | 157,000                    | 114,000       | 306,500       | 180,500       | 267,000       |
| Army.....                            | 30,000         | 115,000        | 140,000        | 105,000                    | 91,000        | 222,000       | 140,000       | 200,000       |
| Navy.....                            | 3,000          | 10,000         | 0              | 16,000                     | 0             | 22,500        | 10,500        | 27,000        |
| Air Force.....                       | 8,000          | 25,000         | 46,000         | 36,000                     | 23,000        | 62,000        | 30,000        | 40,000        |
| Combat aircraft.....                 | 101            | 263            | 613            | 362                        | 180           | 725           | 437           | 329           |
| Reserves.....                        | 65,000         | 235,000        | 350,000        | 305,000                    | 143,000       | 605,000       | 345,500       | 500,000       |
| Other paramilitary.....              | 13,000         | 189,000        | 132,500        | 571,000                    | 75,000        | 445,000       | 737,000       | 1,016,000     |
| Soviet forces on territory.....      | No             | No             | 35             | 26                         | 34            | 32            | No            | No            |

<sup>1</sup> Primary source: The Military Balance, 1978-79, London, International Institute for Strategic Studies, 1978.

<sup>2</sup> U.S. Arms Control and Disarmament Agency, World Military Expenditures and Arms Transfers, 1968-77, Washington, 1979, pp. 32-67.

<sup>3</sup> Divisions.

## Warsaw Treaty Organization



Source: U.S. Central Intelligence Agency, Directory of U.S.S.R. Ministry of Defense and Armed Forces Officials, February 1978, pp. 37-43 (CR-77-12060).



Soviet influence in Eastern Europe in the political and ideological realm is maintained through the close Communist Party links that exist among the countries at all levels. At the top, these links are maintained through frequent summit meetings. Soviet and East European party congresses routinely include high level delegations from the other countries. Nonetheless, this frequent party consultation and coordination has not guaranteed political and ideological uniformity, and the Soviet Union has come to accept a degree of diversity as a fact of life.

In the economic sphere, the main instrument of Soviet-East European integration is the Council for Mutual Economic Assistance (CMEA or COMECON) established in 1949, ostensibly as a counterpart to the Marshall Plan.<sup>4</sup> The organization was dormant until the late 1950's when Nikita Khrushchev made a determined effort at closer economic coordination and supranational guidance of the East European economies. Thereafter, CMEA sought to become the equivalent of the European Economic Community in Western Europe. Until the mid 1970's, this effort met with a notable lack of success. The rules of the organization required unanimous consent before any decision could be taken. Romania successfully blocked moves to achieve either supranational powers for CMEA or greater economic integration. As in the Warsaw Treaty Organization, Romanian leaders may have had the support of some of their less outspoken counterparts in Eastern Europe. (Albania is not a member of CMEA and Yugoslavia is only an associate member.) Mounting economic problems in the 1970's brought about a revitalization of the organization when deteriorating terms of trade for all the East European countries forced what in most cases was an unwanted reorientation of trade toward other CMEA countries. The German Democratic Republic and Czechoslovakia have been the most outspokenly supportive of integration in part because, with their more advanced economies, they enjoy some comparative advantages.

At its 24th session in 1970, CMEA established an investment bank whose operations were placed outside the consensus rule. But participation in bank projects was to remain voluntary. Romania, after some hesitation, joined the investment bank along with the other members of CMEA. Through the bank, the CMEA countries have now undertaken a number of joint investment projects, particularly in the energy field, with capital and manpower provided by the participating countries.<sup>5</sup> The Orenburg Natural Gas Pipeline is the largest such venture. The pipeline will carry gas from Soviet fields to Eastern Europe. The Soviet Union is pressing for further growth in this type of cooperation.

Eastern Europe's substantial dependence on the Soviet Union for energy and raw materials is a major integrative force. Eastern Europe imports most of its raw materials from the Soviet Union, although Poland has large amounts of coal and Romania has reserves of oil, gas, and coal. East European exports to the Soviet Union have for the most part consisted of manufactured goods. For decades, the East

<sup>4</sup> For the most extensive treatment of economic conditions in Eastern Europe, see: U.S. Congress, Joint Economic Committee, "East European Economies Post-Helsinki," Washington, U.S. Government Printing Office, 1977, p. 1427.

<sup>5</sup> Brown, J. F., "Thirty Years of Comecon," Radio Free Europe Research Report No. 8, Jan. 12, 1979, p. 9.



European countries received these resources (especially oil and gas) at prices far below world market levels. In light of its own economic problems, the Soviet Union has gradually been raising oil and other resource prices to world levels. In 1974, Soviet crude oil prices on deliveries to CMEA countries were one-fourth of world prices. The next year prices doubled. Between 1976 and 1979, there were further increases.<sup>6</sup> New price increases based on world market trends are scheduled for the 1980-84 period. Purchases above contracted amounts are subject to special agreements and must already be paid in hard currency at world prices. These steep increases have been a major blow to East European economic planners. Rises in the price of exports to the Soviet Union have not kept pace and many East European countries now have a substantial trade deficit with the Soviet Union in addition to their growing deficit with the West.

Eastern Europe's raw material dependence gives the Soviet Union political leverage but also creates serious problems. This is especially true in the energy field. Soviet leaders are becoming reluctant or unable to continue to expand exports to Eastern Europe. If Central Intelligence Agency estimates are correct, the Soviet Union could become a net importer of oil by the end of the 1980's.<sup>7</sup> The East European countries are already buying oil from Kuwait, Libya, and other OPEC countries. Prior to the ouster of the Shah, Iran was becoming a major supplier of East European oil. The turmoil in Iran temporarily disrupted deliveries. The flow of Iranian oil has resumed but the status of long-term contracts and future supplies to Eastern Europe are now uncertain under the new government. The Soviet Union announced that oil deliveries for 1976-80 would be held at 1975 levels. Some adjustments to that target had to be made to ease the East European burden but the message was clearly that further increases in Eastern European oil consumption would have to be met in large measure from alternate sources.<sup>8</sup> From a strictly economic perspective, the Soviet Union might gain more from selling energy and raw materials to the West for hard currency. However, in the past, political considerations have often outweighed economic ones. Soviet pressure on East European governments to find alternate suppliers may carry the price of some loss of Soviet influence.

Soviet-East European relations have been influenced by the Sino-Soviet dispute. As frictions with China intensified in the late 1960's, the Soviet Union became more willing to accommodate certain aspirations of the countries of Eastern Europe as the price for stability in that region. While it would be difficult to prove a link, there seems to be no question that the expressions of greater autonomy by Romania and other bloc countries coincided with the Sino-Soviet dispute. Under the post-Mao leadership, Chinese leaders have more aggressively courted individual East European countries in the hope of acquiring some leverage there against the Soviet Union. Vice Premier Hua's visit to Yugoslavia and Romania in 1978 demonstrated this greater Chinese interest in the region. Chinese contacts and exchanges with

<sup>6</sup> U.S. Congress, Joint Economic Committee, "East European Economies Post-Helsinki." Washington, U.S. Government Printing Office, 1977, pp. 523-66. ("Economic Performance, Strategy, and Prospects in Eastern Europe," by Paul Marer)

<sup>7</sup> U.S. Central Intelligence Agency, "Prospects for Soviet Oil Production," April 1977, 9 pp. (ER-7710270).

<sup>8</sup> U.S. Congress, Joint Economic Committee, op. cit., pp. 379-95, John R. Haberstroh.



those two countries have increased in recent years. At the same time, Chinese relations with its one-time ally Albania have cooled considerably since Mao's death. The other East European countries continue to support the Soviet Union in its dispute but have been acutely aware of the dispute's positive impact on their interests. The Sino-Soviet talks begun in September 1979 on improving relations will therefore be watched closely by all the East European countries.

Impending leadership changes in the Soviet Union and Eastern Europe are likely to have an impact on the future course of Soviet-East European relations. Many Western experts are already speaking of the Soviet succession process in the present tense due to the age and failing health of Soviet President Leonid Brezhnev. There is much speculation but no clear picture of Mr. Brezhnev's replacement. Andrei Kirilenko, a member of the Party Politburo and Secretariat is widely seen as the immediate successor. But the 72 year old Mr. Kirilenko is likely to have only a transitional role. The leading members of the Politburo are of Mr. Brezhnev's generation and the Communist Party has not undertaken any rejuvenation program at the top. Looking several years beyond the immediate succession there will have to be a wholesale generational change in the party leadership. This inevitable transition could bring changes in the Soviet Union with significant impact on Eastern Europe. The new generation, while it will have been carefully groomed by the earlier one, will be different in many ways. Analysts point out that the next generation's experiences will have been in the unprecedented postwar period of relative Soviet stability and prosperity, as opposed to the revolution, purges, and war that have shaped the Brezhnev generation.<sup>9</sup> This group is better educated and informed than were its predecessors. The question is whether these distinguishing traits portend a future leadership committed to liberalization and modernization of the political and economic system, a reallocation of resources from the military to the civilian economy, both at home and in Eastern Europe, or whether the new generation proves to be more nationalistic, ideologically dogmatic, less reluctant to use Soviet military power to gain foreign policy objectives, and more determined to maintain a strong presence in Eastern Europe.

The uncertainties over the Soviet succession seem clearly to present a problem for East European governments. Any major change of course by the Soviet leadership could bring about pressures from the Soviet Union or competing factions within East European countries for similar changes. In addition, the East European countries are faced with aging leaderships of their own. President Tito of Yugoslavia is the oldest East European leader (87), followed by Enver Hoxha (71). Romanian President Nicolae Ceausescu is the youngest (61). The other East European leaders are between 66 and 68 years of age. With the exception of Yugoslavia, none of the countries have designated a successor or established a clear succession mechanism. Even in Yugoslavia, Western analysts are worried about the ability of the Collective State Presidency to guide the country effectively after President Tito's departure. In Yugoslavia, the army could play a decisive role in the transition and beyond. In the other East European countries, the struggle for power is less likely to move outside the Communist Party structure.

<sup>9</sup> Billington, James H. *Soviet Attitudes and Values: Prospects for the Future*. Appears in the *U.S.S.R. and Sources of Soviet Policy*, pp. 103-112. Kennan Institute for Advanced Russian Studies Occasional Paper, No. 34.



## POLITICAL TRENDS IN EASTERN EUROPE

Government control has remained firmly in the hands of the Communist Parties throughout Eastern Europe. At the same time, the exercise of party authority over the population has been less heavy-handed (with the possible exception of Albania) since the end of the Stalinist period.

There has been a considerable degree of political and cultural liberalization in some countries. Aside from Yugoslavia, the Polish and Hungarian Governments have introduced the most far-reaching changes. In Hungary, the Kadar leadership has earned a degree of popular acceptance through its attention to consumer demands, expansion of contacts with the West, and relatively liberal travel regulations. Poland, under Party leader Gierek, has tried to institute similar policies. Gierek's position is nevertheless more tenuous because of public anger over persisting food shortages and what are viewed as generally inept policies. As shown by a history of riots and protests that have on two occasions toppled Polish governments, public opinion is a potent force in Poland. Unlike other East European governments, Polish leaders must compete with a powerful rival force, the Catholic Church, which claims allegiance from 90 percent of the population. The position of the Church in Poland was vividly demonstrated during Pope John II's visit to the country in June 1979 when millions came out to greet him. Religion is still a major force in the other East European countries, although the organized churches are much weaker than in Poland.

RELIGIOUS DENOMINATIONS AS A PERCENT OF POPULATION <sup>1</sup>

| Denomination            | Bulgaria <sup>2</sup> | C.S.S.R. | German Democratic Republic <sup>3</sup> | Hungary | Poland <sup>4</sup> | Romania | Yugoslavia |
|-------------------------|-----------------------|----------|-----------------------------------------|---------|---------------------|---------|------------|
| Roman Catholic          |                       | 60.0     | 7.6                                     | 65.0    | 88                  | 5.0     | 31.8       |
| Orthodox                | 57                    | 1.0      |                                         | .4      |                     | 66.0    | 41.4       |
| Protestant <sup>5</sup> |                       | 8.0      | 49.8                                    | 21.0    |                     | 1.7     | 2.2        |
| Moslem                  | 11                    |          |                                         |         |                     |         | 12.3       |
| Greek Catholic          |                       |          |                                         |         |                     | 7.0     |            |
| Jewish                  | <.08                  | .1       | .005                                    | .8      | .03                 | .4      | <.03       |
| Unitarian               |                       | 1.0      |                                         |         |                     |         |            |

<sup>1</sup> These are current estimates based on past data, fragmentary evidence from recent years, and the judgment of RFE analysts.

<sup>2</sup> Protestant, Jewish, and Catholic believers in Bulgaria probably constitute no more than 2 percent of the population combined.

<sup>3</sup> Evangelische Pressedienst—Landesdienst Berlin, Jan. 25, 1974, Mar. 15, 1977; Begegnung (Encounter) No. 2, 1974.

<sup>4</sup> Minority denominations, including the Polish Autocephalic Orthodox Church (457,000 members), equal no more than 2 percent of the population.

<sup>5</sup> Primarily Lutheran and Calvinist, although Baptists equal 0.7 percent of the population in Romania.

Source: William F. Robinson, Selected Demographic and Economic Data on Eastern Europe, Radio Free Europe Research Apr. 29, 1977.

Czechoslovakia's experiment with far-reaching political reforms was brought to an abrupt halt by the Warsaw Pact invasion of the country in August 1968. The intervention was apparently launched to end what the Soviet Union and some Warsaw Pact members saw as an erosion of Communist Party control. Since Gustav Husak replaced Alexander Dubcek as party leader, the Government has returned to a rigid system. The German Democratic Republic and Bulgaria adhere closely to the Soviet political model. Albania remains Stalinist in its political programs, emphasizing highly centralized Communist Party management of the country's economic and social life. Albanian leader



Enver Hoxha has conducted periodic purges to eliminate opposition to his rule.

Romania's innovative foreign policy has not been paralleled by significant internal economic or political reforms. The Ceausescu government has been intolerant of dissent from within or outside the Communist Party. Treatment of national minorities, a traditional problem in the region, has become a major issue in Romania, which has sizable Hungarian and German minorities. An accelerated policy of forced assimilation of these groups has reportedly led to the closing of native language schools, dispersal of minority populations, and a decline of minority representation in local and national government. These policies have increased tensions internally and complicated Romanian relations with Hungary.

### IMPACT OF CSCE ON EASTERN EUROPE

The Final Act of the Conference on Security and Cooperation in Europe, signed by 35 Eastern and Western nations at Helsinki in 1975, had an unexpected impact in Eastern Europe. The CSCE's Final Act included provisions on security, human rights, human contacts, East-West trade, economic, scientific, cultural, and educational cooperation. CSCE was greeted with enthusiasm by the East European governments which saw it as a framework for expanding relations with the West and a multilateral umbrella under which bilateral ties with Western countries could be pursued more independently from the Soviet Union. They hoped that the 1977 Belgrade followup meeting would carry similar benefits and the East European media reflected considerable concern when the meeting turned into an East-West confrontation over human rights.

The Final Act's domestic repercussions were more problematic for the East European governments. The governments were not prepared to meet the popular expectations raised by their signatures on the Final Act pledging them, among other things, to allow greater freedom of expression, religion, and travel to the West. In the aftermath of the Conference, a number of private groups were formed in the Soviet Union and Eastern Europe to press for implementation of the accords. The formation of the Charter 77 group in Czechoslovakia in 1977 was followed by the emergence of similar groups demanding respect for human rights in Poland, the German Democratic Republic, and Romania. In Czechoslovakia, the German Democratic Republic, and Romania, the governments instituted harsh reprisals against the dissidents. The Polish Government's reaction was milder, but there were arrests of leading dissidents. Despite government attempts to eliminate them, the dissident movements have survived. In Poland, several dissident groups have remained active, including the Committee for Social Defense and the Polish Independence Accord. In Romania, dissidents established a free trade union claiming 1,400 members.

### REGIONAL ECONOMIC TRENDS IN EASTERN EUROPE

Political and economic policies are closely linked in Eastern Europe. It is in the economic sphere, that individual East European governments have exercised the greatest autonomy and flexibility.



From very different stages of economic development in the 1950's, the East European economies achieved very high growth rates in the 1960's and early 1970's. Growth rates were highest in the less developed countries such as Romania, Yugoslavia, and Bulgaria, but were impressive regionwide.

Overall growth was coupled with a commitment to economic modernization and satisfaction of rising consumer demands. Living standards rose fastest in the economically most advanced countries (the German Democratic Republic and Czechoslovakia) and those which committed a larger share of their investments to consumer production (Yugoslavia, Hungary, and Poland). By the mid-1970's, Eastern Europe, together with the Soviet Union, accounted for 30 percent of world industrial capacity.<sup>10</sup> While all the countries have relied heavily on central planning and have given priority to industrialization, Yugoslavia's "market socialism" has been the most significant departure from the more traditional Communist economic systems. Hungary's "New Economic Mechanism" has also introduced a degree of decentralization, competition, and profit incentive into its economy. Romania and Poland have introduced more modest reforms, and reforms are being debated in the other countries.

In the mid-1970's, economic problems in Eastern Europe began to cloud the region's economic outlook and to suggest a period of retrenchment ahead. Eastern Europe was more directly affected by world economic conditions than it wanted to admit. Certain other problems became common to all or most of these countries and led to declining growth rates: Industrial and agricultural inefficiency, low productivity and a growing labor shortage, and the region's dependence on foreign energy and raw materials. These factors have led to a decline in growth rates.

As a region, Eastern Europe has been heavily dependent on foreign trade. While a substantial portion of the trade is with the Soviet Union (31 percent) and between Eastern European countries (27 percent), a significant and, until recently, increasing portion is with the West (30 percent).<sup>11</sup>

East European governments have sought to achieve modernization and to solve their problems of inefficiency, low productivity, and poor production with the help of technology and know-how imported from the West. In addition, they have imported large amounts of agricultural goods to make up for shortfalls in their own production. To pay for these imports, the East European countries have sought to increase their exports to the West. They have had only modest success. Their efforts have been hindered by a combination of the low quality of their goods and growing protectionism in the West as a result of world economic conditions. As a result, the East European countries have had large trade deficits with the West. They have had to buy on credit and have thus built up a substantial hard currency debt. The total East European hard currency debt was estimated in 1977 to be \$31.4 billion.<sup>12</sup> Poland, with a hard currency debt in 1977 of \$12.8 billion, and Bulgaria faced the most acute problem. To reduce this debt, most of the countries are now limiting their imports,

<sup>10</sup> Comecon Survey, "The Banker," May 1978, 19 pp.

<sup>11</sup> Based on trade figures for 1976, appearing in: U.S. Central Intelligence Agency, Handbook of Economic Statistics, 1978, p. 66.

<sup>12</sup> Office of Economic Research, Central Intelligence Agency.



though, from their own perspective, this is not a desirable solution because it delays modernization and increases consumer tensions.

Several countries are encouraging new types of cooperative ventures to alleviate the debt burden without having to cut trade with the West. These include coproduction and buy-back arrangements in which Western investment in East European enterprises are repaid, at least partially, in goods manufactured by the plants. Thus far, only Yugoslavia and Hungary have allowed joint ownership ventures with Western firms. Despite these efforts to cope with deteriorating terms of trade, world inflation may have the effect, at least in the short-term, of reversing or slowing East European economic reforms, reducing East-West trade volume, and forcing a reorientation of East European trade patterns toward the CMEA region.<sup>13</sup>

#### U.S.S.R. AND EASTERN EUROPE: NET HARD CURRENCY DEBT 1970-77<sup>1</sup>

[In billions of dollars]

|                                 | 1970 | 1974 | 1975 | 1976 | 1977 <sup>2</sup> |
|---------------------------------|------|------|------|------|-------------------|
| Bulgaria.....                   | 0.7  | 1.2  | 1.8  | 2.3  | 2.7               |
| Czechoslovakia.....             | .3   | 1.1  | 1.5  | 2.1  | 2.7               |
| German Democratic Republic..... | 1.0  | 2.8  | 3.8  | 5.2  | 6.0               |
| Hungary.....                    | .6   | 1.5  | 2.1  | 2.8  | 3.4               |
| Poland.....                     | .8   | 3.9  | 6.9  | 10.2 | 12.8              |
| Romania.....                    | 1.2  | 2.6  | 3.0  | 3.3  | 3.8               |
| Total Eastern Europe.....       | 4.6  | 13.1 | 19.1 | 25.9 | 31.4              |
| U.S.S.R.....                    | 1.9  | 5.0  | 10.0 | 14.0 | 16.0              |
| Total CMEA.....                 | 6.5  | 18.1 | 29.1 | 39.9 | 47.4              |

<sup>1</sup> All hard currency debt, including drawdowns on official export credit commitments and claims of Western commercial banks in the form of short term interbank placements. Debts of the CMEA banks (11B and 1BEC) are excluded from the calculations.

<sup>2</sup> Preliminary estimate.

Source: Office of Economic Research, CIA.

#### MEMBERSHIP IN INTERNATIONAL ECONOMIC/COMMERCIAL ORGANIZATIONS

|                                                           | Albania | Bulgaria         | Czechoslovakia   | German Democratic Republic | Hungary          | Poland           | Romania          | U.S.S.R.         |
|-----------------------------------------------------------|---------|------------------|------------------|----------------------------|------------------|------------------|------------------|------------------|
| GATT.....                                                 | No      | Observer         | Yes              | No                         | Yes              | Yes              | Yes              | No               |
| IMF.....                                                  | No      | No               | No               | No                         | No               | No               | Yes              | No               |
| IBRD.....                                                 | No      | No               | No               | No                         | No               | No               | Yes              | No               |
| Berne Convention <sup>1</sup> (copyright protection)..... | No      | Yes              | Yes              | Yes                        | Yes              | Yes              | Yes              | No               |
| Paris Union <sup>2</sup> .....                            | No      | Yes              | Yes              | Yes                        | Yes              | Yes              | Yes              | Yes              |
| International Chamber of Commerce.....                    | No      | ( <sup>3</sup> ) | ( <sup>3</sup> ) | ( <sup>3</sup> )           | ( <sup>3</sup> ) | ( <sup>3</sup> ) | ( <sup>3</sup> ) | ( <sup>3</sup> ) |
| U.C.C. <sup>2</sup> copyright protection.....             | No      | Yes              | Yes              | Yes                        | Yes              | No               | No               | Yes              |

<sup>1</sup> Member of liaison committee.

<sup>2</sup> Although the United States is not a member of this convention, a U.S. author can receive automatic copyright protection for his work in the member countries by publishing it in any other member country simultaneously with its first publication in the United States.

<sup>3</sup> U.S. nationals are entitled to receive the same treatment under a member country's patent and trademark laws as that country extends to its own nationals. U.S. citizens are also entitled to a "right of priority" for patent and trademark applications. Under this procedure, a U.S. national, after first filing a U.S. patent application in the United States, has 1 yr in which to file a corresponding patent application in a member country and receive on this application the date that appeared on the first-filed U.S. application. The period is 6 mo for trademarks.

<sup>4</sup> Universal Copyright Convention. Under this Convention U.S. authors are entitled to automatic protection of their U.S. copyrighted works in that country by inserting on such works their name, year of publication and symbol "c" in a circle.

Source: U.S. Department of Commerce, East-West Trade Update: A Commercial Factsheet for U.S. Business, January 1979, p. 20 (OBR 79-02).

<sup>13</sup> U.S. Congress, Joint Economic Committee, East European Economies Post-Helsinki, summary by John P. Hardt.



## EAST EUROPEAN RELATIONS WITH THE NON-COMMUNIST WORLD

Since the end of the cold war, East European relations outside the Socialist bloc have focused primarily on Western Europe and the United States. Political, economic, and cultural relations were given a boost by the normalization of relations with the Federal Republic of Germany under Chancellor Willy Brandt's Ostpolitik and by the affirmation of United States-Soviet détente in the Nixon-Brezhnev summit of 1972. In recent years East European governments have participated in numerous East-West multilateral negotiations, such as the Conference on Security and Cooperation in Europe and the followup meetings in Belgrade (1977) and next year's meeting in Madrid (1980), the ongoing Vienna Mutual and Balanced Force Reduction Talks between NATO and Warsaw Pact nations, negotiations in the United Nations Economic Commission for Europe, and a series of European Community-CMEA talks. In these multilateral negotiations, the Soviet Union plays a dominant role. Therefore, East European governments view such negotiations, at best, as a necessary umbrella under which they can conduct more flexible bilateral relations with the West.

Nonaligned Yugoslavia, which is an associate member of the EEC, and Romania have the most extensive economic relations with the Western countries. They are the only East European members of the International Monetary Fund, although others have shown an interest in joining. Czechoslovakia, Hungary, Poland, Romania, and Yugoslavia have joined the General Agreement on Trade and Tariffs (GATT).

Due to proximity and historic factors, the countries of Western Europe have a considerable lead over the United States in their relations with Eastern Europe. Nowhere is this more apparent than in the economic sphere. More liberal government credit policies and less rigid export controls have given West European countries a considerable edge in the competition for East European markets, particularly in the area of high technology. The Federal Republic of Germany, France, and Italy have taken the lead.

The movement toward West European integration in the European Community has complicated East European relations with the region in two significant respects. The elimination of tariffs within the European Community region has been accompanied by growing protectionism in relation to countries outside the community, and East European exports to Western Europe have been hurt. In addition, West European integration circumscribes Eastern Europe's ability to deal bilaterally with West European countries and may necessitate bloc-to-bloc dealings to a far greater extent than before.

Since 1970, Japan has established a major economic presence in Eastern Europe. Through the reciprocal granting of trade benefits and liberal Japanese credit policies, Japanese trade with the region has soared. Japan now has numerous joint production and cooperation ventures in Eastern Europe. Poland, Yugoslavia, and Romania have been Japan's leading East European trading partners, but rapid inroads have been made with the other countries as well. The major problem hindering continued expansion of trade is the very sizeable and growing Japanese trade surplus (some \$500 million in 1976).<sup>14</sup>

<sup>14</sup> Robinson, William F., *Japan's Growing Presence in Eastern Europe*, Radio Free Europe Research, Nov. 9, 1978, 13 pp.



East European countries have shown different attitudes toward the independent Communist Parties of Western Europe. Yugoslavia and Romania have been most supportive of those parties in their dispute with the Soviet Union over control of the international Communist movement. Poland and Hungary have taken a cautious middle course, supporting the right of each Communist Party to choose its own road without joining in criticism of the Soviet Union. Czechoslovakia, the German Democratic Republic, and Bulgaria have been the most hostile to the concept of "Eurocommunism."

Perhaps the greatest diversity in East European policies is to be found in their relations with the Third World. Yugoslavia and Romania have built the closest ties with the developing countries. Yugoslavia was a founding member of the nonaligned movement and both Romania and Yugoslavia have sought recognition as developing countries in order to gain some of the benefits LDC's receive from the West. Both conduct some 15 percent of their trade with Third World countries. The other East European countries conduct under 10 percent of their trade with the LDC's. The levels of East European economic aid to the Third World have been fluctuating in recent years. In 1978, East European aid totaled \$1.5 billion.<sup>15</sup>

An aspect of Soviet Third World policy that has particularly concerned the United States has been the participation by some East European countries in Soviet-Cuban military activities in Africa. The German Democratic Republic has apparently been most heavily involved, setting up and helping to administer internal security forces in countries such as Angola, Ethiopia, South Yemen, and recently Afghanistan. Czechoslovakia has supplied arms and technicians to a number of "national liberation movements." Bulgaria has provided technical advisers. Hungary has been active in Mozambique, providing military training and technicians. Poland has shown far less inclination to become involved in this type of Third World activity.

*Major Third World recipients of East European grants and credits, 1978<sup>1</sup>*  
(millions of dollars)

|                   |       |
|-------------------|-------|
| Total Third World | 1,500 |
| <b>Africa:</b>    |       |
| Total             | 627   |
| Morocco           | 89    |
| Angola            | 76    |
| Ethiopia          | 45    |
| Gabon             | 2     |
| Mozambique        | 2     |
| Sudan             | 24    |
| Tanzania          | 3     |
| Zambia            | 12    |
| <b>Asia:</b>      |       |
| Total             | 224   |
| Burma             | 140   |
| Philippines       | 30    |
| Sri Lanka         | 20    |

See footnote at end of table.



*Major Third World recipients of East European grants and credits, 1978<sup>1</sup>**(millions of dollars)*

|                       |     |
|-----------------------|-----|
| <b>Middle East:</b>   |     |
| Total -----           | 441 |
| South Yemen -----     | 6   |
| Syria -----           | 150 |
| Turkey -----          | 85  |
| <b>Latin America:</b> |     |
| Total -----           | 224 |
| Brazil -----          | 200 |
| Colombia -----        | 10  |
| Jamaica -----         | 28  |

<sup>1</sup> U.S. Central Intelligence Agency, *Communist Aid Activities in Non-Communist Less Developed Countries*, 1978, September 1979, pp. 7-10 (ER79-10412U).

### THE EAST EUROPEAN INTEREST IN RELATIONS WITH UNITED STATES

East European interest in relations with the United States at the level of public opinion differs from that of official government policy. All available evidence indicates that the West in general and the United States in particular hold considerable attraction as models among the populations of most East European countries. This general Western orientation does not seem to have been lessened, and may have been strengthened, by past official attempts to insulate the region from Western influences. East European government interest in improving relations with the United States may be explained, at least in the cases of Poland and Hungary, as an accommodation to popular feelings. Aside from other practical benefits of closer ties to the United States, these governments hope to gain acceptance at home through their opening to the West.

Some East European governments see relations with the United States as a counterweight to those with the Soviet Union. Romania has used relations with the United States to increase its flexibility in foreign policy. Nonaligned Yugoslavia has tried to maintain equal distance from the United States and the Soviet Union while seeking cooperation with both.

East European governments have a strong economic stake in closer relations with the United States. Poland and the German Democratic Republic, for example, are heavily dependent on imports of agricultural goods, most, readily available from the United States. In addition, the United States is seen as the greatest potential source of Western technology. Despite hard currency debt problems, the economic interest, particularly in Romania, Poland, and Hungary, remains a major factor underlying relations with the United States. Yugoslavia, which is outside the socialist economic bloc, has gone farthest to diversify its foreign trade patterns. East Germany's western trade is directed primarily toward the Federal Republic but the German Democratic Republic, too, has sought to expand trade with the United States. Czechoslovakia has shown an interest in economic relations with the United States but seems to be more reluctant to run up a major hard currency debt. Only staunchly independent and xenophobic Albania, until recently, has shown virtually no interest in closer ties with the United States.



As a corollary to their own interest in improving relations with the United States, most East European governments attach considerable importance to harmonious relations between the United States and the Soviet Union. Without good United States-Soviet relations they do not, for the most part, expect to have as much latitude in their own policies toward the West. In this vein, they see the satisfactory conclusion of SALT II negotiations as significant for their own interests.

### SUMMATION

With the notable exception of Yugoslavia, Eastern Europe is often discussed in the West as a uniform entity. Similarities among the countries of the region are significant. In each, the Communist Party maintains a high degree of central control over the political, social, and economic sectors. In most of the countries, the Communist Parties rely ultimately on Soviet backing to stay in power. The options of each government are limited by this dependence on the Soviet Union and by the proven Soviet ability to impose its will on Eastern Europe, by force if necessary.

Yet generalizations about Eastern Europe tend to obscure the increasing diversity that exists in the individual countries' approaches to domestic policy, foreign policy, and relations with the United States. Many of the countries have demonstrated a skill at maneuvering within—and expanding—the limits of Soviet tolerance, knowing that physical intervention is a costly option for the Soviet Union which it cannot afford to choose lightly. As a result, the Soviet Union has been forced to accept a loosening of some of its ties with East European countries and accept a degree of diversity, on the condition that East European governments insure stability and refrain from challenging basic Soviet interests. Ironically, at a time when this *modus vivendi* seemed to be becoming firmly established, global economic problems have risen to challenge East European aspirations for greater autonomy. While most of the countries are seeking alternatives to their economic dependence on the Soviet Union for energy, raw materials, and a market for their products, their trade prospects outside the Socialist bloc are being limited by international economic conditions.

Relations with the United States seem to be valued by Eastern European governments, as a balance to the Soviet presence, as a potential source of considerable economic benefit, and finally because closer ties to the United States appear to be popular internally. The United States has been responsive to this desire for improved relations by increasing cooperation with most of the countries, especially those which have followed domestic and foreign policies more in line with perceived U.S. interests. At the same time, successive U.S. administrations have not developed a consistent comprehensive policy toward the region or established a set of criteria, conditions, and objectives to be pursued in relations with the individual countries.

Future relations might benefit from a more comprehensive U.S. policy in pursuit of clear objectives. Further progress with individual East European countries may depend not only on the settlement of outstanding bilateral issues, but also on the regulation of critical East European economic problems, especially those of energy and hard currency debt. The United States could face the question of what measures it can or should offer to assist in alleviating those problems.



## ALBANIA

### SUMMARY

Albania is the smallest and least developed nation in Eastern Europe. Its Communist leadership maintains rigid centralized controls in the ideological, political, and economic sphere. Albania is the only country in the region with which the United States has no diplomatic relations. United States-Albanian trade is at an insignificant level. After periods of being tied politically and economically to Yugoslavia (1944-48), the Soviet Union (1948-61), and China (1962-78), Albania for the first time in its post-World War II history is without a major ally or benefactor. It remains to be seen whether Albania can or will want to maintain its independence and self-imposed isolation.

The United States has no major stake in improving relations with Albania, although it has on occasion signaled a willingness to move in that direction. At the same time, U.S. interests would be adversely affected if Albania were to resume close relations with the Soviet Union, particularly if this meant a reestablishment of a Soviet naval base in the country and increased Soviet pressure on neighboring Yugoslavia.

### UNITED STATES-ALBANIAN RELATIONS

The United States has no historical ties to Albania, although President Wilson was instrumental in saving Albania from dismemberment by its more powerful neighbors after World War I. A small community of some 50,000 to 60,000 Americans of Albanian origin have traditionally taken a strong interest in the fate of that country.<sup>1</sup>

Albania is the only country in Eastern Europe with which the United States has no formal diplomatic relations and no official contacts of any sort. At different times in the post-World War II period, the United States has expressed a willingness to improve relations (after the Soviet-Albanian break in 1961, and again in 1973).<sup>2</sup> The United States has not made recent offers to normalize relations, nor has Albania taken any initiatives in that direction.

The void in United States-Albania diplomatic relations has been accompanied by an almost complete absence of trade or commercial ties. Bilateral trade in 1978 totaled \$7.97 million. U.S. exports to Albania amounted to \$4.47 million, chiefly mineral fuels and related products. U.S. imports from Albania accounted for \$3.5 million consisting primarily of raw materials. Trade figures for the first half of 1979 (\$9.2 million turnover) indicate a very modest rise but trade remains marginal.<sup>3</sup> A substantial upturn in economic relations seems

<sup>1</sup> Brown, Francis J. and Joseph S. Rousek, eds., *One American: The History, Contributions, and Present Problems of Our Racial and National Minorities*, Westport, Conn., Negro Universities Press, 1970, pp. 232-38.

<sup>2</sup> Larrabee, F. Stephen, *Whither Albania?* *World Today*, vol. 34, February 1978: 66.

<sup>3</sup> U.S. Trade Status With Communist Countries, U.S. Department of Commerce, Office of East-West Policy and Planning, May 24, 1979: 7.



unlikely under the present Albanian leadership. Albania has actually placed a constitutional prohibition against accepting credits from "capitalist, bourgeois, and revisionist states," although it does not prohibit trade. Albania has shown a new willingness to engage in commercial relations with some Western states, but it has shown a preference for dealing with some of the smaller West European countries.

Since Albania's break with the Soviet Union in 1961, the main U.S. interest has been in the denial of Albania as a base for the Soviet Union and as a buffer state helping to preserve Yugoslav independence. The Soviets maintained an Adriatic submarine base at Valona until 1961, and a reestablishment of a Soviet presence there would strengthen the Soviet position in the Mediterranean on NATO's southern flank and could threaten Yugoslavia. Current Albanian policy is one of hostility to both the Soviet Union and the United States.

Any improvement in United States-Albanian relations seems unlikely under the leadership of the 69-year-old Enver Hoxha. A change in leadership could provide new opportunities for establishing United States-Albanian relations, although it could also lead to an Albanian-Soviet reconciliation.

## BACKGROUND

### HISTORICAL FACTORS

Albania, a nation of descendents of the ancient Illyrians, emerged from almost five centuries of Turkish occupation in 1912. In World War I, Yugoslavia annexed part of the country and Italy and Greece tried to annex the rest. Only President Wilson's intervention, coupled with a successful Albanian partisan campaign to drive out the Italians, resulted in the restoration of a small independent Albania.

Italy annexed Albania in 1939 but faced a fierce partisan resistance throughout World War II. Albanian Communists, under the leadership of Enver Hoxha, joined the resistance in 1941 and with the backing of Yugoslav Communists soon sought to control the resistance. After a bitter civil war with nationalist partisans (1943-44), the Communists emerged victorious and again turned their attention to the fight to free the country from Axis control. The Axis forces were finally driven from Albania without Soviet help.

After the war, the Albanian Communists were in a position to assume control of the country. They moved cautiously at first, under the umbrella of a "Democratic Front." Most non-Communist members of the front were purged by 1946, although the Communist Party continued to rule through the "Democratic Front" until 1948.

During the period between 1944 and 1948, Albania became a virtual Yugoslav satellite. Preparations were underway to incorporate Albania into the Yugoslav federation in 1948, a fate from which Albania was saved only by the break between Stalin and Tito. Albania immediately sided with the Soviet Union, in what seemed both a tactical and ideological move, expelling all Yugoslavs from the country and purging Titoists from the Communist Party.

Between 1948 and 1961, Albania was closely tied to the Soviet Union. It became a member of the Warsaw Treaty Organization and the Council for Mutual Economic Assistance. The Soviets established a naval base at Valona. In return, Albania received substantial Soviet economic aid. Bilateral relations were harmonious until Khrushchev



launched the de-Stalinization campaign in the Soviet Union in 1956. Hoxha defended Stalin publicly in 1957 and having fought back an anti-Stalin faction in his own party, kept Albania on a Stalinist political and economic course of strong central party control over political life and the economy.<sup>4</sup>

The final break between Albania and the Soviet Union occurred in 1961 after Khrushchev had apparently backed an unsuccessful attempt to replace Hoxha as Albanian party leader. Albania formally withdrew from the Warsaw Pact in 1968, after the invasion of Czechoslovakia. China, in the midst of its own worsening feud with the Soviet Union, quickly moved to replace the Soviet Union as Albania's chief ally and benefactor. For the next decade, Albania supported China and espoused its political positions in the international arena. This relationship too began to sour when China appeared to be abandoning its equal hostility to both superpowers and moved toward reconciliation with the United States, as symbolized by President Nixon's visit to China in 1972. Mao's death and his replacement by a more pragmatic leadership placed a further strain on relations. Albania's anger was finally vented publicly in response to China's purge of the Gang of Four and its moves to establish closer ties with Yugoslavia. By 1978 Sino-Albanian relations had deteriorated to the extent that China cut off further economic aid and pulled its technical advisers and other personnel out of the country. This left Albania without a protector for one of the few times in its history.

#### CURRENT TRENDS

Albania, the smallest and poorest country in Eastern Europe, has instituted few political or economic reforms since the Stalinist period. Enver Hoxha has held the reigns of power since World War II. He and his chief associates have been viewed as the last of the true believers in the international Communist movement. They have been equally hostile to "capitalism" (as represented primarily by the United States) and revisionism (represented by Yugoslavia, the Soviet Union, and now even China). To maintain the ideological purity of the country, Hoxha has kept Albania virtually sealed off from the outside world. As a result Westerners still know relatively little about the situation within the country.

Dissent, either political or religious, has not been tolerated. Albania prides itself on being the world's first truly atheist state, having in its constitution banned all worship and religious activity by its predominantly Muslim and Christian population.<sup>5</sup> Albanian authorities have gone so far as to try to force the people to change names that have any religious roots. Western influences are carefully kept out of the country. Foreign books and movies are banned. Even Yugoslav television is jammed.

Albanian economic and industrial development is still at a rudimentary stage, despite high growth rates. Precise Western measure-

<sup>4</sup> See American University, Foreign Area Studies, Area Handbook for Albania, Washington, U.S. Government Printing Office, 1971, 233 pp.; and Prifti, Peter R., *Socialist Albania since 1944: Domestic and Foreign Departments*, Cambridge, Mass., MIT Press, 1978, 311 pp.

<sup>5</sup> Zanga, Louis, *Albania Reiterates Its Harsh Anti-Religious Policy*, Radio Free Europe Research, Mar. 14, 1979, 6 pp.



ment of Albanian economic performance is impossible because of the general unavailability of data. The 1976-80 Albanian economic plan called for an annual national income growth rate of 6.3-7 percent. This would rank it fifth among East European countries in terms of growth rates (behind Romania, Poland, Bulgaria, and Yugoslavia).<sup>6</sup> Unlike other East European countries, Albania has been able to expand its labor supply, due to the highest population growth (2.2 percent annually) in Eastern Europe. Albania's per capita GNP (\$520 in 1972) remains substantially below all other East European countries.<sup>7</sup> Albania has been seriously dependent on foreign aid, first Yugoslav, then Soviet, and most recently Chinese, for its economic development. Now for the first time since World War II, Albania is trying to go it alone economically.

The absence of a major aid donor has forced Albania to compromise its principles and to expand its economic dealings with some of the countries of Eastern and Western Europe. Bulgaria, Hungary, and Yugoslavia have sought to improve relations with Albania. Yugoslavia—particularly its ethnic Albanian Kosovo region—is experiencing a major increase in its trade with Tirana, despite the latter's constant hostility to the Belgrade government. Albania has moved to improve political and commercial relations with Greece, Italy, Belgium, Britain, West Germany, and France. Albania's emergence from isolation appears to be limited and has not extended to either superpower. Albania continues to refuse to participate actively in any multilateral European endeavors. It did not attend the Conference on Security and Cooperation in Europe in 1975, the Belgrade Conference in 1977, or the various multilateral negotiations that have been held to promote Balkan cooperation.

<sup>6</sup> Marer in *East European Economics Post-Helsinki*, op. cit., p. 535.

<sup>7</sup> U.S. Central Intelligence Agency, *National Basic Intelligence Factbook*, July 1979, p. 2.



## BULGARIA

### SUMMARY

U.S. relations with Bulgaria have developed more slowly than those with most East European countries, stemming in part from the fact that Bulgaria is most closely tied to the Soviet Union. Both its domestic and foreign policies are patterned on the Soviet model. There has been modest progress in United States-Bulgarian relations. The two countries have reached a claims agreement and signed a consular convention. They have expanded their cultural and scientific exchanges. Despite the absence of a trade agreement or reciprocal most-favored-nation status, bilateral trade has risen steadily. The potential for further growth would be increased if trade preferences were granted. But relations with Bulgaria have seemingly been given a low priority, and no significant momentum toward negotiation of further agreements is apparent.

Bulgaria has achieved rapid economic growth, although it remains one of the less developed countries in Eastern Europe. After a brief period of experimentation with decentralization in the 1960's, Bulgaria has moved in the direction of recentralizing economic controls. Soviet economic assistance has been a major factor in Bulgaria's economic development. Possibly to set an example for other East European countries of the benefits of close cooperation, Moscow has provided raw materials and credits to Bulgaria on more favorable terms than those granted to other East European countries. Bulgaria has been an active participant in negotiations to improve relations between the Communist and non-Communist nations of the Balkan region.

### UNITED STATES POLICY TOWARD BULGARIA

United States-Bulgarian relations are at a modest level, possibly reflecting the relatively low priority each nation accords the other. Historically, contacts between the two countries have been few and Bulgarians have made up only a small portion of the East European immigration into the United States.

The United States and Communist Bulgaria established diplomatic relations in 1947 but they were frozen in 1950 after Bulgaria charged the chief U.S. representative in Sofia with espionage. Relations were not resumed until 1960. In 1963, the United States and Bulgaria signed a claims agreement. Since that time there has been some progress in relations. The two countries raised their legations to embassy status in 1966. In the early seventies, a more intensive effort was made by the United States to expand contacts, as part of the overall U.S. policy of détente with the Soviet Union and Eastern Europe. A consular convention was signed in 1972 and ratified in 1975. But passage of the Jackson-Vanik amendment to the Trade Act of 1974, placing congressional restrictions on the granting of economic benefits to Communist countries stalled further progress.



Under the current administration, relations with Bulgaria seem to have received a lower priority. The administration's initial emphasis on human rights (an area in which Bulgaria is seen as particularly vulnerable) and Bulgaria's uniquely close relationship with the Soviet Union have impeded further progress in relations. Some new momentum may have been signaled by an agreement in 1977, reciprocally eliminating travel restrictions on diplomats. In March 1978, a bilateral agreement was reached on defaulted Bulgarian bonds. And in November 1978, the two countries agreed to expand the exchange of agricultural information and experts.<sup>1</sup> This agreement remains to be signed.

Despite these signs of progress, relations may have been adversely affected by several mysterious incidents in which Bulgarian emigrés in the West were killed or narrowly escaped attempts on their lives. Despite the uncertainties surrounding the cases and official Bulgarian denials of complicity, a cloud of suspicion has remained.

Bulgaria has made apparent its interest in improving relations, at least in the economic sphere. Prospects for future bilateral relations now appear to rest primarily with the United States and may depend on the extent to which the United States decides to improve relations with Eastern Europe, as a whole. Bulgaria would appear to be a clear beneficiary of any U.S. decision to treat the countries of the region uniformly and may be one of the most negatively affected by a more individualistic approach. United States-Bulgarian relations may continue to be limited by the Sofia government's close ties to Moscow.

## ISSUES IN BILATERAL RELATIONS

### TRADE

The most activity in recent United States-Bulgarian relations has been in the area of trade, although Bulgaria remains the smallest East European trade-partner of the United States besides Albania. Even without reciprocal trade preferences, trade turnover rose to \$67.2 million in 1978 compared to less than \$6.5 million in 1972. The main U.S. exports were in the category of foods and live animals, primarily corn and corn seed. Tobacco was the main U.S. import item.<sup>2</sup>

#### UNITED STATES-BULGARIAN TRADE

[In millions of dollars]

|                     | 1977 | 1978 | January-June<br>1979 |
|---------------------|------|------|----------------------|
| U.S. exports.....   | 23.9 | 48.1 | 31.1                 |
| U.S. imports.....   | 18.0 | 19.1 | 23.1                 |
| Trade turnover..... | 41.9 | 67.2 | 54.3                 |

Bulgaria has an interest in expanding its imports of technology from the United States. But with a hard currency debt of some \$3 billion, Bulgaria currently has the highest debt service ratio in Eastern Europe and must face the choices of either limiting imports from the

<sup>1</sup> U.S. Department of Commerce, United States-Bulgarian Trade Trends, January-December 1978. April 1979, p. 2.

<sup>2</sup> "U.S. Trade Status With Communist Countries," U.S. Department of Commerce, Office of East-West Policy and Planning, Aug. 24, 1979, p. 8.



West, increasing its own exports, or finding alternative financing and cooperation arrangements. The Bulgarian Government is eager to receive most-favored-nation status, as a means of increasing its export potential to the United States. According to one U.S. estimate, Bulgaria could have increased its exports to the United States over actual amounts by 138 percent in 1974 and by 45 percent in 1975 with MFN. No calculations have been made for later years but the benefits of MFN would have presumably remained substantial.<sup>3</sup> Before Bulgaria can receive MFN, a bilateral trade agreement has to be negotiated, including reciprocal MFN. No formal negotiations have been initiated. The President must then seek a waiver of the Jackson-Vanik amendment to the Trade Act of 1974, based on Bulgarian assurances that it will allow free emigration. To become effective, the waiver must receive the approval of both Houses of Congress. The Bulgarian Government has given no indication that it would follow the Romanian and Hungarian lead and accept these conditions.

#### EMIGRATION AND FAMILY REUNIFICATION, AND HUMAN RIGHTS

Emigration has not been a major issue in United States-Bulgarian relations because of the small number of Bulgarians seeking to be reunited with families in the United States. Bulgaria is a signatory to the Helsinki Final Act and the United States has sought under the provisions of the act to solve outstanding family reunification cases between the two countries. Before the Belgrade CSCE Followup Conference in 1977, Bulgaria agreed to resolve 70 out of 72 cases raised by the United States. Since 1978, however, the Department of State reports that the Bulgarian Government has been less forthcoming. Only 7 cases were resolved in 1978. There were 17 unresolved cases involving 37 individuals in June 1979. Bulgaria has reportedly tightened its emigration regulations in 1979, to require that citizens apply for a special passport and release from Bulgarian citizenship before they can leave. Previously, individuals could emigrate with ordinary passports.<sup>4</sup>

According to Amnesty International, Bulgaria continues to restrict the basic human rights of its citizens. The country's penal code makes criticism of the social and economic system or the leadership punishable by imprisonment. There have been some reports of confinement of dissenters to psychiatric hospitals. Hundreds of citizens have been banished to remote parts of the country, without trial, for criticizing Government policies.<sup>5</sup>

#### BACKGROUND

##### HISTORICAL FACTORS

The distinguishing feature of Bulgaria's post-World War II development has been its special relationship with the Soviet Union and close adherence to the Soviet model in domestic and foreign affairs. The Communist government built on the historical affinity of the

<sup>3</sup> Raffel, Helen (and others), "The MFN Impact on U.S. imports from Eastern Europe." Appears in "European Economies Post-Helsinki," op. cit., p. 1396.

<sup>4</sup> Sixth Semiannual Report of the President to the Commission on Security and Cooperation in Europe on the Implementation of the Helsinki Final Act, December 1978-May 1979. U.S. Department of State Special Report No. 54. July 1979, p. 15.

<sup>5</sup> Amnesty International, Report 1978. London, 1979, pp. 202-206.



Bulgarian people for Russia, a feeling unparalleled elsewhere in Eastern Europe and dating back to Russia's assistance in liberating Bulgaria from centuries of Ottoman rule. The first Bulgarian Communist leader Georgi Dimitrov enunciated the course which Bulgaria would follow when he said: "For the Bulgarian people, friendship with the Soviet Union is as vitally necessary as is the air and sun for every living creature." In turn, Bulgaria has probably benefited from its relations with the Soviet Union more than any other East European country.

Bulgaria entered World War II as a member of the Axis Powers, declaring war on Britain, France, and the United States but not on the Soviet Union. In September 1944, a Soviet-backed Communist dominated Fatherland Front, under the leadership of Georgi Dimitrov, seized the government. A Soviet-style constitution was adopted in 1947. Like other Eastern European countries, Bulgaria purged "national Communists" in the wake of the break between Stalin and Tito. Vulko Chervenkov emerged as the Stalinist leader of Bulgaria in 1949. Under his rule, the purges continued. Bulgaria set out on a path of heavy industrialization and forced collectivization, a task even more ambitious than in the rest of Eastern Europe. Bulgaria had been one of the most backward peasant societies in Europe with only a very modest industrial base.

In 1954, Chervenkov, following the lead of the post-Stalin Soviet leaders, gave up his position as party leader to Todor Zhivkov, while keeping his position as head of government. Zhivkov was able to oust Chervenkov in 1961 and assume full leadership of the country. Under Zhivkov's rule, Bulgaria experimented with decentralization and other economic reforms. However, following the Warsaw Pact invasion of Czechoslovakia in 1968 in which Bulgaria participated, the Sofia government abandoned its reform program and began to move in the opposite direction, centralizing party control of the economy. In 1970, Bulgaria merged a number of enterprises into massive agricultural-industrial complexes, geared to handle everything in the food production chain from seed to harvesting, food processing, packaging, transportation, export, and marketing.

The new Bulgarian Constitution of 1971 further formalized the dominant role of the Communist Party in national life and defined Bulgarian relations with the Soviet Union. It included pledges of permanent friendship with the Soviet Union and the Warsaw Pact.

#### CURRENT POLITICAL TRENDS

Todor Zhivkov continues to pattern his domestic policies on those of the Soviet Union, though in some ways he has been more conservative and less permissive than the Brezhnev leadership, especially with respect to the penetration into the country of Western lifestyles. The Government is waging a campaign against "bourgeois morality, philistine tastes, and consumerism."<sup>6</sup> The most vivid example of this attitude was provided by the government response to the increasing popularity of long hair among the youth. Bulgarian police, scissors in hand, stopped long-haired young men and administered haircuts on

<sup>6</sup> Comecon Survey, the Banker, May 1978: 36.



the street. Authorities have continued to jam Radio Free Europe and other Western broadcasts to the country.

The almost 800,000-member Communist Party and its various subsidiary organizations, such as the Communist Youth and trade union, are the dominant force in society. Religion still plays a role, especially among the older people. The majority of the population remains at least nominally Bulgarian Orthodox, despite Government efforts to promote atheism.

The Government readily admits that it has not yet succeeded in shaping the "new socialist man" in Bulgaria and that tradition remains a powerful influence. At the same time, there has not been any evidence of significant dissident activity in Bulgaria. The relative absence of dissidence is in sharp contrast to the growing ferment in other parts of Eastern Europe.

#### ECONOMIC TRENDS

Although it is still among the less developed countries of Europe, (sixth in Eastern Europe with a per capita GNP of \$2,799 in 1978), Bulgaria has made enormous economic strides in the past three decades, due in part to substantial Soviet economic assistance. Bulgaria received Soviet aid estimated at \$2 billion at a time when the rest of Eastern Europe was being exploited by Moscow to support its own economic development. The majority of the Bulgarian work force is now employed in industry and the emphasis on heavy industrialization continues, although Bulgaria has remained largely self-sufficient and a net exporter in agriculture. Bulgaria's growth in national income slowed to 6 percent in 1978. Its 1976-80 plan target was for 8.7 percent annual growth, ranking it second in Eastern Europe behind Romania.<sup>7</sup>

Bulgaria shares many current problems with other countries of the region, including a growing labor shortage, and low labor and capital productivity. It has had difficulty absorbing new technology. Agricultural productivity has declined in recent years. Traditionally, the agricultural sector has been one of Bulgaria's major economic successes. It has played a major role in Bulgarian foreign trade and in raising living standards.<sup>8</sup> In addition, Bulgaria is also poor in natural resources, having to rely heavily on imports, mainly from the Soviet Union. It is highly dependent on foreign trade generally, and is therefore feeling the effects of world inflation.

Some 80 percent of Bulgarian trade is with other CMEA member countries (the highest share in Eastern Europe). The Soviet Union alone accounts for 55 percent. There is considerable evidence that Bulgaria receives preferential treatment over other East European countries in its trade with the Soviet Union. According to one estimate, Bulgaria may pay only 50 to 75 percent of the rates paid by other East European countries for Soviet energy and raw materials.<sup>9</sup>

<sup>7</sup> U.S. Department of Commerce, U.S. Bulgarian Trade Trends January-December 1978, p. 1.

<sup>8</sup> Allen, Mark. The Bulgarian Economy in the 1970's. Appears in Eastern Europe Economics Post-Helsinki, op. cit., pp. 647-97.

<sup>9</sup> Zentner, Peter, Bulgarians Thriving Under the Russian Wing, London Times, Apr. 27, 1977, p. 23.



The industrialized West's share of Bulgarian trade (approximately 10 percent in 1978) is smaller than in other East European countries but the Government is seeking to expand its economic ties, especially with Western Europe. The Federal Republic of Germany, Italy, and France are Bulgaria's main Western trading partners. A decree of July 1978 allows certain major enterprises for the first time to engage directly in foreign trade activity, thus increasing the access of Western firms to their Bulgarian counterparts. Bulgaria is still restrictive when it comes to joint ventures with Western firms, emphasizing buy-back and countertrade arrangements.

Bulgaria has sought to expand its exports to the West, as a means of reducing its large hard currency debt. Thus far, it has been far more successful in Third World markets, exporting entire "turn-key" plants to countries in the Middle East, Africa, and Asia.<sup>10</sup>

#### FOREIGN RELATIONS

Bulgaria's membership in the Warsaw Treaty Organization, the Council for Mutual Economic Assistance, and its special relationship with the Soviet Union, have circumscribed its relations outside the Socialist bloc. Bulgaria has been an enthusiastic supporter of closer integration with the Soviet Union to such an extent that there has been occasional speculation that the country might be incorporated into the Soviet Union as a Soviet Republic. While such a prospect seems unlikely at present, Bulgaria's international orientation is likely to continue to be to the East.

Outside of the Soviet bloc, Bulgaria's main interest appears to be in other states of the Balkan region. Bulgarian relations have improved considerably with NATO members Turkey and Greece. Relations with Yugoslavia are troubled by differences over the Macedonian population in Bulgaria. Bulgaria does not recognize a separate Macedonian minority among its population while Yugoslavia, with a large Macedonian population, insists on making a distinction between Bulgarians and Macedonians.

<sup>10</sup> United States-Bulgarian Trade Trends, op. cit., pp. 1-2.



## CZECHOSLOVAKIA

### SUMMARY

Czechoslovakia is one of the two most economically advanced countries of Eastern Europe, rivaled only by East Germany. Since 1968 it also has been one of the most firmly governed and most consistently loyal to Moscow. United States-Czechoslovak relations are currently poor, reflecting in part the U.S. policy of differentiating among East European countries according to their human rights records and their relationships with Moscow. After a period of considerable movement toward improving relations in the early 1970's, as an adjunct to United States-Soviet détente, the United States now seems to be giving relations with Czechoslovakia low priority, while moving ahead deliberately in relations with more autonomous and more liberal Communist governments.

As a result of this policy and earlier Senate action rejecting a claims settlement between the two countries, a number of bilateral issues remain unresolved. These include the question of U.S. claims against Czechoslovakia, disposition of Czechoslovak gold held by the United States, negotiation of a trade agreement, the reciprocal granting of most-favored-nation status, and implementation of the consular convention signed in 1973. The resolution of the claims and MFN issues will require congressional approval.

### UNITED STATES POLICY TOWARD CZECHOSLOVAKIA

#### HISTORICAL FACTORS

Post-World War II strains in United States-Czechoslovak relations tend to obscure the special ties that have existed between the two countries, dating back to the foundation of the Czechoslovak state in 1918. President Woodrow Wilson's policy on self-determination was instrumental in the creation of Czechoslovakia after the collapse of the Austro-Hungarian monarchy. The Constitution of the new Czechoslovak state was modeled on that of the United States. In the interwar period, Americans saw Czechoslovakia as a model of democracy in Central Europe.

Bilateral relations have also been influenced by the existence of sizable Czech and Slovak communities in the United States which, through a number of Czechoslovak-American organizations, have lobbied Congress and the executive branch to take a greater interest in U.S. relations with Czechoslovakia and to exert pressure to achieve national autonomy and internal liberalization for the Czechoslovak people. According to different estimates, there are presently between 1 and 2 million Americans of Czech or Slovak origin and Czechoslovak-American groups publish some 28 original language newspapers



and periodicals.<sup>1</sup> The greatest concentrations of Czechs and Slovaks are found in Chicago, New York, and Cleveland. Pennsylvania is the state with the largest Czech and Slovak populations.<sup>2</sup>

The postwar evolution of United States-Czechoslovak relations was in sharp contrast with the friendly relations of the prewar period. Until the Czechoslovak liberalization program of 1968, relations were strained. During Alexander Dubcek's brief rule in 1968, prospects seemed good for mending ties. Before formal steps were taken by either government to improve relations, the chances for immediate progress were eliminated by the Warsaw Pact invasion of the country in August and Dubcek's subsequent ouster.

Relations were frozen after 1968 until 1974 when the United States negotiated a package agreement with Czechoslovakia for the settlement of outstanding claims and the return of Czechoslovak gold (held jointly by the United States, Britain, and France). Congress rejected the settlement later in the year, creating an impasse in bilateral relations which continues in 1979.<sup>3</sup> While the future of United States-Czechoslovak relations are uncertain, there are differing perceptions on how the United States should procede.

Some observers believe that the United States should seek to raise relations with Czechoslovakia to the level of those with Poland, Hungary, and Romania, without regard to Czechoslovak domestic and foreign policy. Those favoring such an approach argue that it would serve the cause of stability in East-West relations, that it would be more likely in the long run to lead to Czechoslovak liberalization, and that it could enhance U.S. commercial prospects in Czechoslovakia.

Others see no benefit in improving Czechoslovak-American relations at present. They favor waiting until Czechoslovakia adopts policies that are less hostile to U.S. interests and more in line with the provisions of the Helsinki accords. Proponents hope that in the long run this policy will favorably influence Czechoslovak behavior since the latter stands to lose more from the absence of closer ties than the United States.

A third approach would combine a more determined effort to improve relations with Czechoslovakia with quiet diplomatic pressure on that Government to change policies which are a source of friction in bilateral relations. Proponents of this approach would argue that Czechoslovakia would have more incentive to be forthcoming on issues of concern to the United States, if an existing positive relationship were at stake.

## ISSUES IN BILATERAL RELATIONS

### CLAIMS

In 1974, the United States and Czechoslovakia initialed a claims agreement. In addition to \$9 million previously recovered by the United States, Czechoslovakia was to repay \$20.5 million or approximately 40 percent of the amount the United States established was owed it (a figure seemingly in line with the settlements achieved with other East European countries). In turn the United States would return

<sup>1</sup> Garrett, Stephen A., "East European Ethnic Groups and American Foreign Policy," *Political Science Quarterly*, vol. 93, No. 2, summer 1978: 303-304.

<sup>2</sup> Brown, Francis J. and Joseph S. Roucek, eds., "One America." 3d ed. Westport, Conn., Negro University Press, 1970, p. 162.

<sup>3</sup> See U.S. Congress, Senate, Committee on Finance, "Czechoslovak Claims Settlement," executive hearings, 93d Cong., 2d sess., Sept. 11 and 26, 1974. Washington, D.C., U.S. Government Printing Office, 1974.



gold seized during World War II. However, the Senate rejected the settlement. An amendment to the Trade Act of 1974 was passed requiring that the United States renegotiate the claims agreement on more favorable terms. Czechoslovakia responded by rejecting the terms of the Trade Act and nullifying the claims settlement. At the same time, Czechoslovakia has not ruled out the possibility of reopening negotiations or making some revisions in the terms. Removal of the claims impasse is seen as a prerequisite to the settlement of other outstanding issues and the normalization of relations in general.

The 1974 Senate action was controversial. Critics charged that the initial agreement was equitable and in line with claims settlements achieved with other Communist countries, that the majority of American claimants would have chosen to accept 40 cents on the dollar rather than continue waiting, and that it would open the door to normalizing bilateral relations. Proponents of a renegotiation of the agreement have argued that the United States has bargaining power vis-a-vis the Czechoslovak Government that it did not have in its other claims negotiations since the Czechoslovak gold presently being held is worth more at current prices than the U.S. claims. A renegotiation could lead to a compromise settlement which would allow each side to save face. There have been some suggestions that the Czechoslovak gold be sold as the quickest redress for the American claimants. But the United States has always recognized that the gold belongs to Czechoslovakia and could not dispose of it unilaterally since it is held jointly with Britain and France. Both have been ready to return it for some time.

#### GOLD

The 18 metric tons of gold jointly held by the United States, Britain, and France since the end of World War II is not an issue by itself because there is no dispute over Czechoslovakia's claim to it. Its return is being held up by the claims impasse and once that is resolved, the United States has made clear the gold will be returned. While the Czechoslovak Government seeks return of the gold, it is not displaying any sense of urgency.

#### TRADE AND MFN

Czechoslovak economic relations with the United States are also at a modest level, though it seems clear that Czechoslovakia is interested in and could benefit from expanded trade. The level of bilateral trade in 1978 exceeded that of the previous years. U.S. exports and total trade volume rose despite the absence of most-favored-nation status and credits for Czechoslovakia.

#### UNITED STATES-CZECHOSLOVAKIAN TRADE <sup>1</sup>

[In millions of dollars]

|                     | 1977  | 1978  | January-June<br>1979 |
|---------------------|-------|-------|----------------------|
| U.S. exports.....   | 74.0  | 105.4 | 83.2                 |
| U.S. imports.....   | 36.6  | 58.0  | 24.5                 |
| Trade turnover..... | 110.6 | 163.4 | 107.7                |

<sup>1</sup> U.S. Department of Commerce, Office of East-West Policy and Planning, U.S. Trade Status with Communist Countries, Washington, D.C., May 24, 1979, p. 9.



Agricultural sales have dominated U.S. exports to Czechoslovakia in recent years despite the latter's stated goal of achieving food self-sufficiency. The main U.S. export items have been corn, cattle hides, and soybean oil.<sup>4</sup> But the long-term Czechoslovak need is for technological imports from the United States.

Czechoslovak exports to the United States consist primarily of machinery and manufactured goods. The Czechoslovak government hopes that with attainment of most favored nation it can substantially increase its share of the U.S. market. According to estimates appearing in the Joint Economic Committee volume "East European Economies Post-Helsinki," most-favored-nation status could have increased Czechoslovak exports to the United States by \$33 million or 72.5 percent in 1974 and \$59.5 million or 171.9 percent in 1975.<sup>5</sup> Estimates on the impact of most-favored-nation on future trade volume vary widely but Czechoslovakia and the GDR are seen as the two East European countries that would benefit most from most-favored-nation status.

Czechoslovakia is one of four East European countries with which the United States has not signed a trade agreement. Such an agreement will not be negotiated until a claims settlement is reached and even then it will depend on a further U.S. decision to move toward full normalization of relations. Under the terms of the Jackson-Vanik amendment to the Trade Act of 1974, the United States cannot grant most-favored-nation status to Czechoslovakia without subsequent congressional approval, following a Presidential determination that Czechoslovakia permits free emigration or is taking positive steps in that direction. While Czechoslovakia clearly does not allow free emigration, it may nevertheless be easier to justify extension of most-favored-nation under the terms of the Jackson-Vanik amendment to Czechoslovakia than to some other countries. There is no evidence of large numbers of people from individual minority groups wanting to leave the country and being denied permission. Additionally, Czechoslovakia has shown signs of wanting to resolve outstanding family reunification cases with the United States.

#### THE CONSULAR CONVENTION

The problem of implementing the consular convention now appears to be entirely in the hands of Czechoslovakia. A convention was signed in 1973 and ratified by the U.S. Senate in 1974. Thus far, Czechoslovakia has refused to exchange instruments of ratification, probably as a signal of its displeasure over Senate rejection of the claims agreement. It seems likely that once there is movement on other issues, the consular convention will be put in force.

#### HUMAN RIGHTS AND FAMILY REUNIFICATION

At the height of its human rights campaign, the U.S. administration singled out Czechoslovakia for criticism on human and civil rights at the Belgrade CSCE conference ending in 1978. The Czechoslovak crackdown against members of the "Charter 77" movement and the trials and sentences of six dissidents in October 1979 also elicited a sharp official U.S. response.

<sup>4</sup> U.S. Department of Commerce, *United States-Czechoslovak Trade Trends*, 1978, April 1979, p. 5.

<sup>5</sup> Raffel, Helen, *op. cit.*, p. 1407.



A particular source of past United States-Czechoslovak friction related to the CSCE accords concerns problems of family reunification. The Department of State reports that there has been some encouraging progress toward resolving outstanding cases. As of March 1979, there were 24 unresolved family reunification cases involving 57 individuals.<sup>6</sup> Numerous cases have been resolved since June 1977. Emigration remains a problem in Czechoslovakia as the country maintains tight restrictions on the movement of its citizens, although there is no indication that this policy is directed against any particular minority group, such as the Hungarians, Ukrainians, Germans, Poles, Gypsies, or Jews living in the country. Recently, relations have been soured by incidents of harassment by Czechoslovak authorities against U.S. citizens. In May 1978, Czechoslovakia expelled an American correspondent, Robert Reid, for his contacts with Czechoslovak dissidents in what was seen as contravention of the Helsinki agreements on the working conditions of journalists. This was the most serious among many cases of Czechoslovak harassment of Western journalists. The United States vigorously protested the treatment of Reid and subsequent action against other Americans.

## BACKGROUND

### HISTORICAL FACTORS

Czechoslovakia's postwar development followed the pattern in other East European countries where coalition governments were gradually taken over by the Communist Parties, with the backing of the Soviet Union. This evolution was contrary to Western expectations because there were key differences between the situation of Czechoslovakia and that of other East European countries. First, the relationship between Czechoslovakia and the Soviet Union was not burdened by any traditional Czechoslovak animosity toward Russia and, unlike other East Europeans, Czechoslovaks genuinely viewed the Soviets as liberators. Their attitude toward their own Communist Party also differed significantly. Communists, though still in a minority, enjoyed greater support than elsewhere in Eastern Europe. The party received 38 percent of the popular vote in the 1946 elections. Due to these factors, the United States and its Western allies hoped that Czechoslovakia could fulfill its desired role as a bridge between East and West and that the Czechoslovak-Soviet relationship would be based more on mutual cooperation than on Soviet coercion.

The actual evolution in Czechoslovakia following the Communist takeover in 1948 differed considerably from expectations. Despite the fact that Czechoslovakia had adopted elements of socialism and already had been industrialized to a far greater extent than other East European countries and although the Communist Party enjoyed considerable popularity when it came to power, the Czechoslovak Communist Party proved to be as dogmatic and repressive as the parties of several other East European countries, cracking down against "national Communists" and non-Communists alike. After the purges of the early 1950's, and the death of Stalin in the Soviet Union, Czechoslovakia avoided the turnover in leadership experienced in other East

<sup>6</sup> Sixth Semiannual Report by the President to the Commission on Security and Cooperation in Europe, U.S. Department of State Special Report, No. 54, July 1979, p. 15.



European countries. Antonin Novotny was able to remain in power from 1953 until 1968.

*The events of 1968.*—Czechoslovakia's major departure from the more orthodox East European pattern occurred in 1968 when, during what has been called the "Prague Spring," the old leadership was replaced by a government headed by Alexander Dubcek. As party first secretary, Dubcek rapidly moved the country along a path of political and economic reform with the stated goal of establishing "Communism with a human face." Dubcek also moved to establish closer ties with Western countries without sacrificing the country's position in the Warsaw Pact and the Council for Mutual Economic Assistance (CMEA), the Soviet-East European counterpart of the European Economic Community. The human rights situation in Czechoslovakia improved rapidly with the lifting of censorship and curbs on foreign travel. Multiparty elections were planned.

The Czechoslovak "spring" was brought to a halt by the Soviet-led Warsaw Pact invasion of the country in August of 1968.<sup>7</sup> The Soviet decision to intervene resulted perhaps from Soviet alarm over the rapidity with which Czechoslovakia seemed to be moving away from the Soviet model and the fear that the Czechoslovak experiment might infect other parts of Eastern Europe. By 1969, Dubcek had been replaced by Gustav Husak and the country had been returned to its pre-1968 course, including firm party control over the country's political and economic life. Despite the fact that the situation in Czechoslovakia had been "normalized," Soviet troops remained in the country. No Soviet troops had been stationed in Czechoslovakia prior to the invasion.

#### CURRENT POLITICAL TRENDS

Czechoslovakia is one of the most rigidly ruled countries of Eastern Europe under the leadership of party chairman Gustav Husak. Since 1968, many reform-minded Communists have been excluded from the party and the government. Communist Party authority in the country has been recentralized.

The human rights situation in Czechoslovakia has been a cause of concern in the West. Since 1968, full censorship has been reintroduced. While the number of political prisoners in Czechoslovakia is not known, Amnesty International reported in 1979 that the number was increasing. Amnesty International said that it was investigating 60 cases as of June 1978.<sup>8</sup> There has been a severe crackdown against Czechoslovak dissidents. Six members of the "Committee for the Defense of the Unjustly Prosecuted" were sentenced to prison terms up to 5 years in October 1979. It has also become far more difficult for Czechoslovaks to leave the country.

The Helsinki accords have had a significant impact within Czechoslovakia. In January 1977, hundreds of Czechoslovak dissidents signed a declaration entitled "Charter 77" calling on the Government to respect its own laws and constitution, as well as international agreements regarding human rights. Despite an intensive Government crackdown against the chartists and members of a Committee for the Defense of the Unjustly Prosecuted, including imprisonment and exile, the dis-

<sup>7</sup> Forces of the Soviet Union, Bulgaria, the German Democratic Republic, Hungary, and Poland took part in the invasion.

<sup>8</sup> Amnesty International, Report, 1978. London, 1979, pp. 206-210.



sident movement remains active in Czechoslovakia and continues to attract new members.

#### ECONOMIC TRENDS

With a gross national product of \$70.7 billion in 1978 (\$4,673 per capita), Czechoslovakia has one of the most advanced economies in Eastern Europe rivaled only by East Germany.<sup>9</sup> Considerable emphasis on consumer satisfaction has allowed Czechoslovakia to share with East Germany the highest living standards in Eastern Europe. The rate of economic growth, on the other hand, is the second lowest in Eastern Europe (the German Democratic Republic has the lowest rate.) The 1976-80 plan called for annual increases, of 5 percent, measured in national income. Real growth is expected to fall short of this figure.

The country is faced with many of the same economic problems as other socialist countries including declining growth rates, declining labor productivity, and a growing labor shortage, and difficulties in incorporating new technology.<sup>10</sup> Despite a history of manufacturing excellence, Czechoslovak products now have difficulty competing on the Western market.

Czechoslovakia has restricted its imports from the West as much as possible, thereby avoiding the high levels of indebtedness reached by other East European countries. Czechoslovakia had the lowest hard currency debt in 1977 (both in absolute terms and in relation to GNP). The country's substantial dependence on Soviet raw materials and energy costs, has led to a deficit in the Czechoslovak trade balance with the Soviet Union and other CMEA countries as well. Approximately two-thirds of Czechoslovak trade is with other Communist countries. The industrialized Western countries account for one-fourth. The Federal Republic of Germany and Austria are Czechoslovakia's major Western trading partners.<sup>11</sup>

Czechoslovakia is one of the most ardent proponents of economic integration within CMEA. While this may be in part just another reflection of Prague's adherence to the Soviet line, it is also a product of the comparative advantages that Czechoslovakia enjoys in its trade ties with the rest of the bloc resulting from its more advanced industrial base. Czechoslovakia remains behind many of its neighbors in expanding trade ties with the West, not only in terms of volume but also the types of joint ventures and other innovative relationships established with foreign firms. At present, the Husak leadership is not prepared to open the gates to a more varied economic relationship with the West, because of the political and debt risks of such an opening.

#### CZECHOSLOVAKIA'S FOREIGN RELATIONS

Czechoslovakia's foreign policy remains very closely aligned with that of the Soviet Union. There are five Soviet divisions (including two tank divisions) stationed in Czechoslovakia. The country is a member of the Warsaw Treaty Organization and CMEA. After rap-

<sup>9</sup> U.S. Central Intelligence Agency. National Basic Intelligence Factbook. July 1979. p. 47.

<sup>10</sup> U.S. Department of Commerce. Industry and Trade Administration, Foreign Economic Trends and their Implications for the United States: Czechoslovakia. Washington, D.C., May 1978.

<sup>11</sup> U.S. Department of Commerce. United States-Czechoslovak Trade Trends, 1978. April 1979.



idly expanding ties with the West in 1968, Czechoslovakia has sharply curbed such a relationship. Czechoslovakia now often takes more hard-line positions vis-a-vis the West than does the Soviet Union. Both at the Belgrade Conference on CSCE in 1977-78 and the MBFR talks in Vienna, Czechoslovakia has taken some of the most rigid positions. The Czechoslovak delegation at Belgrade was the most critical of the United States and other Western countries for their stand on human rights, accusing them of interference in the internal affairs of the Socialist countries. Czechoslovakia has also been the most critical of Romanian and Yugoslav assertions of independence and of the more independent Western Communist Parties in Italy and elsewhere. In turn Czechoslovakia has been a key target of Western criticism, including that from Western Communist Parties, especially for its human rights record. In the Third World, Czechoslovakia also supports Soviet interests, although it does not play the same active role as Cuba and East Germany. Its chief function has been that of an arms supplier to "national liberation" groups in Africa and elsewhere.

Czechoslovakia has a long tradition in manufacturing arms. Today it is one of the world's leading arms suppliers (ranking sixth immediately behind France). It is a major supplier of tanks, armored personnel carriers, artillery, rocket launchers, and small arms. Czechoslovakia also supplies military advisers and financial aid. Major recipients have included at different times, Nigeria, Biafra, Ethiopia, Eritrean regels, Sudan, Uganda, Angola, and Zaire.<sup>12</sup>

#### PROSPECTS FOR CHANGE

Czechoslovak political, economic, and foreign policy trends since 1968 have been the result of the Soviet imposed "normalization." Now that more than 10 years have passed since the Soviet-led invasion of 1968, the question raised by Western experts is when the Soviet Union and the current Czechoslovak leaders will consider the situation sufficiently "normalized" to relax controls, at least to the cautious degree evident in other East European countries. Such a shift in policy, if and when it comes, could result in a rapid expansion of economic and other ties with the West. The fact that no relaxation has occurred, years after the crisis, leads some analysts to doubt whether the current leadership will introduce any liberalization.

<sup>12</sup> Pick, Otto, Czechoslovakia's Presence in Black Africa Radio Free Europe Research, Mar. 19, 1979.



## THE GERMAN DEMOCRATIC REPUBLIC

### SUMMARY

The German Democratic Republic's relations with the West, particularly the United States, have been tied to relations between the two Germanies and the problem of Berlin. Relations have improved since the Germany Democratic Republic's ties with the Federal Republic were normalized and the four-power agreement on Berlin was reached between 1970 and 1972. Diplomatic relations with the United States followed in 1974.

The German Democratic Republic, today, is a major ally of the Soviet Union in economic, military, and ideological affairs. In this role, it has not simply been a loyal follower but has become increasingly assertive in a number of areas. It has become actively involved in Africa in support of Soviet interests. The German Democratic Republic is also a leading industrial power with the highest standard of living in Eastern Europe. The government of Erich Honecker maintains tight political controls and allows little free expression but seeks to compensate for this with an economic policy aimed at consumer satisfaction. Nevertheless, there has been evidence of unrest among intellectuals and the attraction of West Germany on the population, through television and radio, has been considerable despite major efforts by East German authorities to contain Western "ideological" penetration.

Relations between the United States and the German Democratic Republic have developed only slowly since the establishment of ties in 1974, except in the economic sphere. The German Democratic Republic has nonetheless become the fourth East European trading partner of the United States despite the absence of most-favored-nation status or access to Government credits. The potential for further trade expansion is considerable but progress rests on settlement of the claims issue and negotiation of a trade accord.

### UNITED STATES POLICY TOWARD THE GERMAN DEMOCRATIC REPUBLIC

United States-East German ties, prior to the establishment of diplomatic relations in 1974, were linked to the larger German question and problems over Berlin. U.S. policy toward the German Democratic Republic continues to take the interests and sensitivities of the Federal Republic very much into account. The United States generally follows the West German lead in relations with the German Democratic Republic. Nevertheless, the establishment of diplomatic relations in September 1974 was expected to lead rapidly to conclusion of a consular convention, settlement of outstanding claims, and negotiation of economic and other cooperation agreements. Until recently there had been little progress on most of these issues. A consular convention was signed on September 4, 1979, and now awaits ratification by both sides.



Progress has occurred in the sphere of trade despite the German Democratic Republic's ineligibility for most-favored-nation and credits. The United States has enjoyed an overwhelmingly favorable balance in that trade primarily on the strength of exports of grain and other agricultural commodities. The German Democratic Republic is now the fourth leading East European trading partner of the United States, behind Poland, Yugoslavia, and Romania. Between 1975 and 1977, the German Democratic Republic imported about \$1 billion worth of U.S. grain, much of that total not appearing in U.S. trade statistics because it was transshipped through third countries. Grain and agricultural sales again accounted for most of the value of U.S. exports in 1978. U.S. imports consisted primarily of manufactured goods.

UNITED STATES-GERMAN DEMOCRATIC REPUBLIC TRADE <sup>1</sup>

[In millions of dollars]

|                     | 1977 | 1978  | January-June<br>1979 |
|---------------------|------|-------|----------------------|
| U.S. exports.....   | 36.1 | 170.1 | 138.3                |
| U.S. imports.....   | 16.8 | 35.3  | 19.2                 |
| Trade turnover..... | 52.9 | 205.4 | 157.5                |

<sup>1</sup> U.S. Department of Commerce, Office of East-West Policy and Planning, U.S. Trade Status with Communist Countries Aug. 24, 1979, p. 10.

Note.—If transshipments through 3d countries are included, U.S. exports in 1977 were \$262,000,000 and U.S. exports in 1978 amounted to \$254,000,000.

There is a potential for significant future growth in bilateral trade. A joint trade and economic council was established in 1978 to promote commercial relations. Economists believe that the German Democratic Republic could benefit more than any other East European country from most-favored-nation treatment and that many East German products such as machine tools, optical equipment, and chemical products would be highly competitive on the U.S. market with most-favored-nation status.<sup>1</sup> According to one estimate on the impact of MFN, German Democratic Republic exports in 1974 and 1975 with MFN's would have been more than double their actual amount.<sup>2</sup> An additional barrier to rapid trade expansion is the inflexibility of the German Democratic Republic in its economic cooperation policy. East Germany does not allow joint ownership ventures and insists on buy-back arrangements, where at least part of U.S. investment is to be repayed in German Democratic Republic goods.

U.S. relations with the German Democratic Republic continue to be shaped by close U.S. ties with the Federal Republic. The establishment of diplomatic relations with the German Democratic Republic was, itself, a major breakthrough, but now the relationship has progressed slowly pending resolution of a number of specific issues, including a claims settlement. The signing of a consular convention on September 4 may have given diplomatic relations a new momentum. The claims negotiations are stalled by the slow process of adjudication in the United States. Administration spokesmen do not expect a resolution of this issue before 1981 because it will take that long for the U.S. Government to process and verify claims by American citizens.

<sup>1</sup> U.S. Congress, House Committee on International Relations, Subcommittee on Europe and the Middle East, hearings, op. cit., p. 56.

<sup>2</sup> U.S. Congress, Joint Economic Committee, East European Economies Post-Helsinki, Washington, U.S. Government Printing Office, 1977, p. 1407.



The broader U.S. policy question is what level of priority to give to relations with the German Democratic Republic, given the latter's special relations with the Soviet Union, its considerable involvement in support of Soviet activities in Africa and the Arab world, its poor human rights record, and its seeming disinterest in establishing more open relations with the West outside the economic sphere. Despite the mutual benefits of trade some observers argue that the United States should seek to use trade benefits as a lever to encourage moderation in German Democratic Republic foreign or domestic policies.

## ISSUES IN BILATERAL RELATIONS

### BERLIN

The status of Berlin since World War II has been a problem not only in relations between the two Germanies, but also between the United States and the Soviet Union and between the United States and the German Democratic Republic. Berlin (both East and West) is still formally under four-power control (United States, Britain, France, and the Soviet Union), although the German Democratic Republic has incorporated East Berlin and made it the state capital. West Berlin has close ties to the Federal Republic of Germany, including nonvoting representation in the West German Parliament, but it still remains formally under allied control. The Berlin Wall was constructed by the German Democratic Republic in 1961, ending the unhindered movement of people between sectors of the city and stopping the flow of refugees from the German Democratic Republic to the West through Berlin.

A Four-Power Agreement on Berlin was concluded in 1972 to end the serious East-West confrontations that had periodically arisen over the city. It provided for unhindered access for civilians from the Federal Republic of Germany to West Berlin, greater freedom of movement between East and West Berlin, and Soviet acknowledgment of certain ties between the Federal Republic of Germany and West Berlin, including the Federal Republic of Germany's right to represent it abroad.

Since 1972, Berlin has receded as a problem in East-West relations, although disputes have occasionally occurred. East German authorities have barred entry by West German officials into East Berlin and have held up traffic between the Federal Republic of Germany and Berlin in retaliation for West Germany's movement of National Government agencies to the city and the scheduling of high-level West German functions there. The United States has supported the Federal Republic of Germany in these disputes. During a visit to West Berlin in July 1978, President Carter reaffirmed the U.S. pledge to preserve the freedom of West Berlin.

### CLAIMS

The United States and the German Democratic Republic agreed to enter into negotiations to settle outstanding claims following the establishment of diplomatic relations in 1974. Informal discussions on the subject have taken place since that time but formal negotiations have been postponed until the U.S. Foreign Claims Settlement Commission adjudicates all claims. This process is expected to take until 1981. The total of U.S. claims against the German Democratic Re-



public has not yet been determined. Private citizens have claimed \$888 million but many claims have not yet been verified and others have already been rejected.

One complication may arise over the issue of claims by Jewish victims of Nazism. In the past, the German Democratic Republic Government has refused to make restitution for damages incurred under the Nazi regime, beyond a lump sum paid at the end of the war, claiming that the Government of the Federal Republic alone was responsible for any further claims resulting from past German acts. However, the German Democratic Republic has agreed in principle to include Jewish claims in its settlement with the United States. A Conference on Jewish Material Claims was established by organizations representing Jewish victims of Nazism and was recognized by both the United States and the German Democratic Republic as the negotiating agent on those claims. This group has been negotiating with the League of Anti-Fascist Resistance Fighters of the German Democratic Republic to work out details.

As was demonstrated in the case of the Czechoslovak claims agreement, the Congress may play a role once a settlement is achieved. The agreement with Prague was nullified by Congress because it found the percentage of the original claims amount that would be recovered too low.

#### TRADE AND MFN

A comprehensive trade agreement and the reciprocal granting of MFN cannot proceed by law until a claims settlement has been implemented. Thus no action can be expected on this issue until at least 1981 according to U.S. Government estimates. The German Democratic Republic is not eligible for most-favored-nation treatment or government credits, even after a claims settlement, without a Presidential waiver of the Jackson-Vanik amendment to the Trade Act of 1974, linking MFN and credits to the emigration policy of the recipient government. Such a waiver requires congressional approval. At present, the administration does not consider the German Democratic Republic to be eligible for a waiver in view of its restrictive policy on emigration. If the administration seeks a waiver in the future, it must receive congressional approval.

#### FAMILY REUNIFICATION AND HUMAN RIGHTS

The Department of State has given close attention to outstanding family reunification cases under the terms of the Helsinki accords to which both countries are signatories. The German Democratic Republic has continued to be restrictive in its emigration policies, even in cases involving family reunification. East German authorities have harassed some applicants wanting to be reunited with families abroad, depriving them of jobs or demoting them to menial positions. One East German citizen was arrested for applying to join his sister in the United States. However, the State Department reports that the German Democratic Republic has recently acted favorably on most family reunification cases raised by the U.S. Embassy. As of June 1979, there were 19 family reunification cases (immediate and nonimmediate) pending, involving 41 individuals.<sup>3</sup>

<sup>3</sup> Sixth Semiannual Report of the President to the Commission on Security and Cooperation in Europe on the Implementation of the Helsinki Final Act," December 1978 to June 1979. Department of State Special Report, July 1979, pp. 14-15.



There has been considerable progress on the larger issue of family reunification cases between the two Germanys. In 1977, 12,078 East Germans were allowed to emigrate to West Germany. Another 12,000 were allowed to leave in 1978.

#### CONSULAR CONVENTION

The United States and the German Democratic Republic signed a consular convention on September 4, 1979, after resolving a stumbling block over the definition of German Democratic Republic nationality which the East German Government had insisted on including in the text and over the status of residents of Berlin.

The problem was overcome by excluding the question of nationality from the convention. The United States has assured the German Democratic Republic Government that its consular offices would have access to German Democratic Republic citizens in the United States. Now the convention needs to be ratified by both countries.

#### BACKGROUND

##### HISTORICAL FACTORS

The German Democratic Republic was established after World War II in the Soviet occupation zone of defeated Germany. The development of the German Democratic Republic after its founding in 1949 was in many ways similar to the postwar evolution of other East European countries. The Soviet military authorities gradually transferred rule to an East German government dominated by the Communist or Social Unity Party (SED) headed by Walter Ulbricht. The Government was patterned on the Soviet model.

However, the position of the German Democratic Republic differed from that of other East European countries in that the Soviet Union maintained more direct control over East German affairs and extracted immense war reparations from the country through the mid-1950's, including the transfer of entire industrial plants, rolling stock, and livestock to the Soviet Union. The severity of the Soviet policy toward the German Democratic Republic significantly retarded the postwar recovery of the country and was a major factor leading to the 1953 workers' revolt against Communist and Soviet rule. It took Soviet troops to put down the rebellion and save the Ulbricht regime.

After the revolt, firm Party control was reestablished. The German Democratic Republic was brought into the Warsaw Pact in 1956. The de-Stalinization in the Soviet Union and in much of Eastern Europe was not extended to the German Democratic Republic. The Government, having failed to achieve a sense of legitimacy or the support of the population, did not feel secure enough to introduce major reforms.

Prior to the construction of the Berlin Wall in 1961, some 2 million East Germans fled to West Berlin. A large percentage of the refugees were professionals and skilled workers. Their departure left a critical shortage in those occupations and delayed the country's economic development. After 1961, the German Democratic Republic achieved rapid economic growth. In 1964, the Sixth SED Congress finally adopted a program of de-Stalinization and economic reforms aimed at a degree of decentralization of controls and the introduction of



more profit incentives. The reforms did not extend to social and cultural policies. Even these modest reforms were abandoned after a serious policy rift within the party.

In 1968 the East German government faced the spill-over effects of Czechoslovak liberalization under Alexander Dubcek. The so-called "Prague Spring" struck a responsive chord among East Germans, especially intellectuals and dissidents. When the Soviet Union and other Warsaw Pact countries invaded Czechoslovakia in August 1968 to put an end to the Czechoslovak experiment, the German Democratic Republic not only participated in the military action but may have been one of its major proponents. After 1968, East German authorities tightened political controls, punishing those who had openly sympathized with the Dubcek program.

In 1971, Walter Ulbricht, who had led the country since its foundation, was replaced as party secretary by Erich Honecker, apparently because he refused to moderate his opposition to East-West détente. The change at the top did not substantially alter the political climate in the German Democratic Republic. It did lead to a greater concentration on economic benefits for the consumers.

Honecker's rise to power did not alter East German foreign policy or its close relationship with the Soviet Union. But the change coincided with the country's emergence from international isolation, as a result of the West German decision to abandon the "Hallstein Doctrine" and to improve relations with the Soviet Union and Eastern Europe under Willy Brandt's "Ostpolitik."<sup>4</sup> The German Democratic Republic initially condemned this policy, fearing further isolation, as West Germany began negotiations with the Soviet Union in 1969. An FRG-Soviet treaty normalizing relations was signed in August 1970. A similar treaty was signed between the FRG and Poland in December 1970. In addition, a four-power agreement, resolving the status of Berlin, was signed in September 1971 and implemented in 1972. The two Germanies finally signed a basic treaty governing relations between them in 1972. Each half of Germany acknowledged the sovereignty and borders of the other, though the door was not closed on eventual reunification. The understanding led to rapid international recognition of the German Democratic Republic. The country became a member of the United Nations in 1973 along with the FRG and soon enjoyed diplomatic relations with most countries. The United States established diplomatic relations with the GDR in September 1974.

#### CURRENT POLITICAL TRENDS

The SED maintains strong central control over East German society, devoting a major effort to insuring ideological purity and uniformity. Honecker's willingness to depart from the course of his predecessor Walter Ulbricht and open contacts with the West has not been accompanied by liberalization in the domestic political structure. The German Democratic Republic's domestic policies are built around the concept of "Abgrenzung" or containment of Western influences on society.<sup>5</sup> In pursuit of this goal, the East German Party has sought to engage the majority of the population in ideological activity through

<sup>4</sup> The "Hallstein Doctrine" barred West German relations with any country maintaining ties with the German Democratic Republic.

<sup>5</sup> Jones, W. Treharne, *East Germany under Honecker*, *World Today*, vol. 32, September 1976: 339.



party and party-affiliated organizations. The Ninth SED Congress in 1976 moved to broaden the base of the party which was already 2 million strong in a population of 17 million. Even the highly successful East German sports program has ideological engagement as a major motive. Compulsory military training was introduced in the schools in 1978, despite the active opposition of the country's religious leaders.

It is difficult to measure the effectiveness of this containment program but it would appear to be limited. The West continues to exert a strong influence on the population, particularly through West German television which can be received throughout most of the country. While the majority of the population is politically apathetic and has little interest in open dissent, this seems due more to economic affluence (the German Democratic Republic has the highest standard of living in Eastern Europe) than to the success of the indoctrination program.

Dissent in the German Democratic Republic is confined mainly to intellectuals, although there have been some demonstrations of worker dissatisfaction in recent years. The government has dealt harshly with dissidents. There are estimated to be several thousand political prisoners in the German Democratic Republic, most serving relatively short terms for trying to escape from the country. The German Democratic Republic has instituted a practice of releasing political prisoners to West Germany in exchange for sums of money (between \$15,000 and \$80,000 per prisoner). Some 1,300 people were released this way in 1977, according to Amnesty International.<sup>6</sup>

Travel between the German Democratic Republic and the West has been made easier in recent years. Some 7 million West Germans and West Berliners now visit the German Democratic Republic annually but travel to the West by East Germans is still limited for the most part to pensioners and those with family emergencies. According to reports, as many as 200,000 people have formally applied to leave the German Democratic Republic, despite the consequence of government harassment and loss of jobs and benefits that can go with such applications. In 1978, some 12,000 East Germans emigrated from the country legally.<sup>7</sup>

#### ECONOMIC TRENDS

The German Democratic Republic (together with Czechoslovakia) has the most highly developed economy in Eastern Europe. In 1978, the gross national product of the German Democratic Republic was approximately \$81 billion (\$4,834 per capita). However, its rate of economic growth has been low by East European standards. The 1977 growth measured in national income was 5.5 percent. The 1976-80 plan called for annual national income growth of 5 percent but this may prove unattainable.<sup>8</sup> The country has given attention to consumer demands and raising living standards and has allowed private enterprise to grow, particularly in the service sector. Over 50 percent of the country's national product has come from the manufacturing sector.<sup>9</sup>

Despite its impressive achievements, the German Democratic Republic faces economic problems common to other East European countries. It is poor in raw materials and energy, except for lignite, and

<sup>6</sup> Amnesty International. *The German Democratic Republic*. London, October 1977. 12 pp. and Amnesty International. report 1978. London. 1979. pp. 211-214.

<sup>7</sup> Federal German Government Information Service, Bonn, Jan. 3, 1979.

<sup>8</sup> Marer, Paul, op. cit., p. 535.

<sup>9</sup> Comecon Survey, *the Banker*, May 1978: 31-33.



must rely heavily on foreign suppliers, particularly the Soviet Union. Its terms of trade have deteriorated with both the industrialized West and within CMEA. It has the most acute labor shortage in Eastern Europe which will probably be heightened in future years by a population decline resulting from one of the lowest birth rates in the world. The German Democratic Republic is also suffering from the effects of inflation, due to its reliance on increasingly expensive imported raw materials while the prices of its exports are not keeping pace. One means of coping with its economic problems would be for the German Democratic Republic to reduce consumption. Whereas other East European countries, such as Czechoslovakia and Hungary, are now taking this course, the German Democratic Republic has not been willing, thus far, to face the political consequences of severe austerity measures. The population has come to expect rising living standards and the government has viewed consumer satisfaction as the price for stability. The government has promised to hold down the prices of food, housing, and basic goods.

The East German economy is tied closely to those of its Council For Mutual Economic Assistance (CMEA) trading partners. East European nations account for 70 percent of the German Democratic Republic's foreign trade. The Soviet Union alone accounts for 40 percent and the German Democratic Republic is the leading Soviet trade partner. Like Czechoslovakia, the German Democratic Republic is a strong advocate of closer integration of CMEA where it enjoys comparative advantages over other countries. Yet the German Democratic Republic has been hit harder than other East European countries by changing international price structures and its investment burden in CMEA joint projects in the Soviet Union.

The country benefits from a special trade relationship with the Federal Republic, its leading Western trade partner (12 percent of total German Democratic Republic trade). The Federal Republic treats this as domestic trade, giving the German Democratic Republic tariff advantages and access through reexports from the FRG to European Community markets. The German Democratic Republic also benefits from a special West German swing credit of approximately \$850 million.

The East German Government continues to emphasize imports of Western technology to help improve its economic performance but the future of the GDR's economic relations with the West is made uncertain by a hard currency debt of approximately \$7 billion, the second highest in Eastern Europe (behind Poland), and a growing hard currency debt servicing problem. The GDR is now seeking to limit its imports from the West. Also, the GDR is not yet ready to enter into joint ownership ventures with Western firms or to engage in other innovative cooperative arrangements, such as those pursued by some other East European countries.<sup>10</sup> Western firms are not enthusiastic about the barter trade and buy back arrangements sought by the GDR. Trade is also hindered by the fact that the GDR is one of the least forthcoming with economic information and data among East European countries.<sup>11</sup>

<sup>10</sup> Dietsch, Ulrich, *New Tendencies in the Cooperation Policies of the GDR*, *Inter-economics*, September/October 1977: 267.

<sup>11</sup> U.S. Congress, House, Committee on International Relations, Subcommittee on Europe and the Middle East, *U.S. Policy Toward Eastern Europe*, hearings, 95th Congress, 2d session, Sept. 7 and 12, 1978. Washington, U.S. Government Printing Office, 1979, p. 184.



## FOREIGN RELATIONS OF THE GERMAN DEMOCRATIC REPUBLIC

For geographic and historical reasons, the Soviet Union still exercises more direct control over the GDR than any other country in Eastern Europe. There are approximately 300,000 Soviet troops stationed in the GDR with headquarters near East Berlin. The two countries are bound by a series of bilateral links at different levels. The GDR has embodied its "irrevocable and eternal" alliance with the Soviet Union in a constitution, unveiled in 1974.<sup>12</sup> The special relationship between the Soviet Union and the GDR is also evident in the bilateral Friendship Treaty of 1975 which goes further than any similar Soviet treaty in tying the countries together.

As the Soviet Union's major economic and defense partner, the GDR is one of the most ardent supporters of tighter Warsaw Pact and CMEA integration. It has been a vocal defender of the Brezhnev Doctrine claiming for the Soviet Union the right to intervene in other Communist countries when socialism is threatened. This support may be based on the fact that the GDR's ruling elite, more than any other in Eastern Europe, feels dependent on the Soviet presence to maintain its own position and the country's national integrity. The GDR has been willing to challenge Soviet and East European policies when they have been construed as too permissive or damaging to the interests of the East German Communist Party. The GDR has taken a hard line in the international Communist movement. Both at the 1976 East Berlin Conference of European Communist Parties and elsewhere, East German leaders have unequivocally condemned the so-called Eurocommunist Parties of Western Europe and have been critical of the more independent East European Parties when their policies have differed from those of other Warsaw Pact members. The GDR has supported the Soviet Union consistently in the Sino-Soviet dispute.

Since 1974, the GDR has been actively involved in the Third World, particularly in Africa and the Persian Gulf, apparently in support of Soviet strategic interests. Only in small part has this involvement been motivated by a desire to compete for trade and raw materials. East Germany still seems to accord the Third World a low priority in its trade policy. Thus the GDR has been heavily involved at various times in countries such as Somalia, Ethiopia, South Yemen, and Afghanistan, where it would seem to have no major interests of its own. The GDR has performed specialized tasks in these countries, setting up internal security organizations, establishing national radio, television, and press facilities, and providing ideological and technical training. While the GDR has actively supported wars of national liberation, providing thousands of technical and military advisers it has not supplied combat troops.<sup>13</sup> High level delegations from the GDR have become frequent visitors to Africa. In February 1979, Party leader Erich Honecker visited Libya, Angola, Zambia, and Mozambique.<sup>14</sup>

The GDR's relations with the Western countries have grown since the settlement between the two Germanies. However, the focus of East German interest has been almost exclusively on commercial ties. In

<sup>12</sup> An attempt to place a similar clause in the Polish constitution was abandoned in face of a storm of public protest.

<sup>13</sup> Von Plate, Bernard, GDR Foreign Policy in Africa and Arabia, *Aussenpolitik*, vol. 29, No. 1, 1978: 75:101.

<sup>14</sup> Foreign Broadcast Information Service, Daily Report: Eastern Europe, Feb. 16, 1979: E1.



line with the GDR's containment policy regarding Western influence, cultural and other forms of cooperation with the West have been much slower to develop than by other East European countries. GDR spokesmen place emphasis on the continuation of the ideological struggle between East and West. East German espionage activity, particularly in West Germany, as well as its apparent links to West German terrorist groups, have been a major source of friction between the two Germanies.



## HUNGARY

### SUMMARY

U.S. relations with Hungary have shown significant improvement under the current administration. Some major problems in bilateral relations have been settled. Since 1978 Hungary has received U.S. trade benefits including most-favored-nation status and access to Export-Import Bank credits. U.S. efforts to improve relations were primarily a response to Hungarian domestic liberalization. While Hungary remains closely tied to Soviet foreign policy, the country exercises considerable autonomy in its internal affairs. Under the leadership of Janos Kadar, Hungarians enjoy a greater degree of freedom than other East Europeans, although the instruments of control have not been abandoned.

Hungary has undertaken far-reaching economic reforms with the introduction of the New Economic Mechanism. The emphasis on consumer goods and profit incentives has substantially raised living standards. But the Hungarian economy now faces serious problems as it seeks to implement the more difficult phases of the reform while coping with a deteriorating balance of payments resulting from its dependence on trade and imported raw materials. Hungarian leaders are warning their people of a period of austerity ahead. The test for Kadar's program will be whether he can maintain popular support for it under less favorable economic conditions.

### UNITED STATES POLICY TOWARD HUNGARY

U.S. relations with Hungary have improved significantly under the Carter administration. Until recently, Hungary ranked low among U.S. interests in Eastern Europe. There was no large Hungarian-American lobby to press for a more active policy toward that country. Although many Hungarians immigrated to the United States, first in the 19th century and more recently after World War II and the Hungarian Revolution of 1956, their numbers and influence were small compared to some of the larger ethnic groups. Also, Hungary was a defeated member of the Axis powers after World War II whose occupation by the Soviet Union was accepted as a *fait accompli* by the United States.

The United States and Hungary reestablished diplomatic relations in 1945 but these became strained after 1947 due to the Communist government's expropriation of American owned property. The crushing of the Hungarian uprising in 1956 further strained relations. In fact the United States was represented only by a charge d'affaires in Budapest until 1966. Relations improved modestly in the mid-1960's as Hungarian leader Kadar began to implement his liberalization program. In 1966 diplomatic representation was elevated to embassy status. Negotiations in 1971 led to the departure from Hun-



gary of Cardinal Mindszenty, who had been in asylum in the U.S. Embassy since 1956. In 1972 the two countries signed a consular agreement and a claims settlement was negotiated in 1973.

The major breakthrough in bilateral relations came in 1978. As a gesture with considerable symbolic significance, a delegation headed by Secretary of State Vance returned the crown of St. Stephen to Hungary in January. The crown had been in the United States since the end of World War II. In March 1978, the United States and Hungary signed a trade agreement which provided for the reciprocal granting of MFN. The President subsequently waived the provision of the Jackson-Vanik amendment to the Trade Act of 1974 (linking trade to emigration) and Congress approved MFN for Hungary, based on the determination that Hungarian emigration policy conformed to the requirements of the legislation. The waiver must be renewed annually under current legislation.

The recent progress in bilateral relations represents a departure from earlier policy by both the United States and Hungary. As part of the administration's emphasis on human rights, the United States, for the first time, was basing a decision to grant a Communist East European country favorable treatment on its relaxed internal policies.

For Hungary's cautious leader, the qualitative improvement of relations with the United States at a time of serious U.S.-Soviet strains also represented a change. Kadar has not sought the role of a maverick within the Socialist bloc, although he has shown considerable autonomy in domestic affairs. He has tried to carry out his reform program maintaining a low profile, to the point of being troubled by Western media attention to his policies. For years, Western analysts thought that Hungary would not accept concessions from the United States, while they were denied the Soviet Union. Therefore, it came as a surprise to many observers when Hungary reached a trade and MFN agreement in 1978, in effect accepting the terms of the Jackson-Vanik amendment.

## ISSUES IN BILATERAL RELATIONS

### TRADE RELATIONS

The impact of most-favored-nation status is only beginning to be felt, but trade between the United States and Hungary is expanding, although still at a modest level. Trade turnover for 1978 increased \$40 million over 1977. U.S. exports to Hungary consisted primarily of agricultural products, machinery, and chemicals. U.S. imports consisted mainly of agricultural goods, machinery, and manufactured articles.

#### UNITED STATES-HUNGARIAN TRADE <sup>1</sup>

[In millions of dollars]

|                     | 1977  | 1978  | January-June 1979 |
|---------------------|-------|-------|-------------------|
| U.S. exports.....   | 79.8  | 97.7  | 41.7              |
| U.S. imports.....   | 46.6  | 68.5  | 48.4              |
| Trade turnover..... | 126.3 | 166.1 | 90.1              |

<sup>1</sup> U.S. Department of Commerce, Office of East-West Policy Planning, U.S. Trade Status with Communist Countries. Aug. 24, 1979, p. 11.



There are impediments to further growth despite the interest in trade expansion on both sides. MFN treatment is currently extended to Hungary for 1 year at a time under the required waiver of the Jackson-Vanik amendment. Hungary would be a beneficiary of proposed legislation to grant multiyear MFN. The most serious impediment is Hungary's balance-of-payments problem and its \$4 billion hard currency debt. To insure continued growth, Hungary must export more, and many of its goods are still not competitive on Western markets. But Hungary has some assets which improve trade prospects. The most significant is its receptiveness to new forms of cooperation. Hungary allows joint ownership ventures between its enterprises and foreign firms, as well as various coproduction arrangements. A number of U.S. firms have established joint ventures in Hungary, and interest has been shown by a number of others. Now Hungary has entered into its first joint ownership projects in the United States for the production of light bulbs and marketing of medical equipment. A number of U.S. firms and banks have offices in Budapest and the Hungarian National Bank has opened an office in New York. Hungary has access to Export-Import Bank and Commodity Credit Corporation credits. Hungarian exporters now claim to be concentrating on market research and improved marketing and advertising techniques to increase their sales in the United States. U.S. firms have been encouraged to enter into cooperation agreements by Hungary's readiness to release economic information and data necessary for making business decisions (economic secrecy is still a problem inhibiting trade with most East European countries).

There has been some controversy within the U.S. surrounding Hungarian exports to this country. In particular, American competitors have charged Hungary with dumping light bulbs on the U.S. market, although an International Trade Commission investigation of the dumping allegations has been terminated due to "lack of proof of injury to the domestic industry." Imports of light bulbs from Hungary are now expected to decline, following the startup of U.S. domestic production by the joint United States-Hungarian manufacturing plant in New Jersey.<sup>1</sup>

#### EMIGRATION AND FAMILY REUNIFICATION

The level of emigration from Hungary is low but according to the Department of State the Hungarian Government has been responsive when family reunification problems have arisen. Emigration from Hungary to the United States increased 28 percent in 1978 over the 1977 figure. As of May 1979, there were 8 family reunification cases (involving 15 individuals) pending between the United States and Hungary. About 10 percent of applications to emigrate are turned down, but unlike other East European countries, Hungary has not punished or penalized citizens for asking to leave.<sup>2</sup> Jewish emigration from the country is low but there is no evidence that Jews are seeking to leave the country in any significant numbers.

<sup>1</sup> U.S. Department of Commerce, United States-Hungarian Trade Trends, January-December 1978. April 1978, pp. 1-12.

<sup>2</sup> Sixth Semiannual Report by the President to the Commission on Security and Cooperation in Europe, December 1978-June 1979. U.S. Department of State Special Report No. 54, July 1979, pp. 14-15.



## BACKGROUND

## HISTORICAL FACTORS

Hungary's postwar development can be viewed in four distinct phases. Until 1965 Hungary's evolution differed very little from that of other Communist East European countries. The Hungarian uprising in 1956 proved to be the most serious challenge to Soviet and Communist control in Eastern Europe. A period of reprisal and repression followed the crushing of the revolt by Soviet troops. Finally, in the early 1960's there slowly emerged the liberalization course associated with "Kadarism."

In 1947, the Communists led by Matyas Rakosi gained complete control of the country with the backing of Soviet forces, overturning the results of a major election defeat. There followed a purge of Communist and non-Communist opponents of the regime, and the imprisonment or execution of thousands. Janos Kadar was imprisoned at that time. After a spectacular show trial, the leader of the Hungarian Catholic Church, Cardinal Mindszenty, was sentenced to life in prison. Hungary's leaders imposed a program of nationalization, forced agricultural collectivization, and rapid industrialization.

The death of Stalin in 1953 led to relaxation of Hungarian policies, although Rakosi himself was not replaced until July 1956. Ironically, this loosening of controls and the rising expectations that they engendered may in part have triggered the Hungarian uprising in October and November 1956.

On October 23, a large demonstration was held in Budapest by workers and students demanding government reforms and expressing solidarity with Polish reformers. Fighting erupted between demonstrators and security forces. Soviet troops were brought in as the clashes escalated into a full-scale uprising and spread to other parts of the country. Imre Nagy was brought in as Premier (a position he had held in 1953 and 1954) while Janos Kadar replaced Gero as party leader. Nagy responded to public demands by abolishing the secret police, announcing an end to the one-party system, and promising free elections. When fresh Soviet troops began pouring into the country in early November, Nagy declared that Hungary was withdrawing from the Warsaw Pact and proclaimed the country's neutrality. Soviet forces crushed the revolt and thousands were killed or arrested. Many leaders, including Nagy, were later executed. Some 200,000 citizens fled the country. Cardinal Mindszenty, freed during the uprising, took asylum in the U.S. Legation. Janos Kadar, viewed by most Hungarians as a traitor for siding with the Soviet Union in the final showdown, was placed in control of the country.

Kadar reinstituted tight controls and began a purge of "revisionist" elements in the Communist Party. There followed 2 years of severe repression. But by 1958, Kadar had turned his attention to removing the remaining hardliners, a process which was completed with the formal denunciation of Rakosi in 1962.

Once stability and party control had been restored, he launched his program of national reconciliation. The Kadar policies of the 1960's had as their primary objective the reduction of popular hostility toward the system through political liberalization and consumer satisfaction. In addition, Kadar sought to improve the country's eco-



conomic performance and to end its international isolation stemming from the suppression of the 1956 uprising. All of these objectives were to be pursued gradually so as not to provoke renewed Soviet intervention.

In the early 1960's, Kadar released and offered amnesty to most of the people imprisoned for their participation in the 1956 uprising. Next he sought to bring the non-Communist majority of the population into the mainstream of national life with the slogan "he who is not against us is with us." This was a reversal of the earlier policy under which class origin and ideological orientation were the main criteria for gaining admission to higher education or access to responsible jobs.

Kadar's most far-reaching changes were introduced in the economic sphere. Economic priorities were redirected toward greater consumer satisfaction, a program Soviet leader Nikita Khrushchev labeled "goulash communism." Even before the new economic mechanism (NEM) was announced in 1968, Hungary introduced profit incentives in industry and agriculture. The NEM, despite its bland title, was the most far-reaching economic reform, outside of Yugoslavia's, undertaken in Eastern Europe. The role of central planning was sharply reduced, and for the first time under Communist rule the economy was exposed to market forces. Profitability became the main consideration in enterprise decisions, as the country sought to improve economic efficiency and its competitiveness in foreign trade.

By 1968, Kadar had also overcome the problem of Hungary's international isolation. The "Hungarian question" brought before the United Nations each year by the United States since the 1956 Soviet intervention in Hungary was dropped from the agenda in 1963. Hungary improved relations with the Vatican in 1964 and began to expand its ties with the West. In 1968, Hungary's international position was tarnished by its participation in the Warsaw Pact invasion of Czechoslovakia, although it was generally believed that Kadar had tried to moderate the dispute between the Soviet Union and Czechoslovak leader Dubcek.

There was concern in 1968 that the Soviets would pressure Hungary to abandon its reform in the aftermath of the Czechoslovak events. But the NEM continued unhindered until 1973 when it ran into real obstacles resulting from adverse domestic and foreign economic conditions. The Government responded to these conditions (and possibly to Soviet pressure) with a partial retreat toward tighter central controls on the economy. The entire process of liberalization seemed in jeopardy when three of the architects of Hungary's reforms were dismissed from their positions. The move proved largely symbolic as the men were replaced by other moderates who had participated in the reforms. At the Hungarian Party Congress in 1975, Kadar signaled a return to the pre-1973 political and economic course and by 1977 the country was moving ahead with the reform program.

#### CURRENT POLITICAL TRENDS

Hungarian domestic policy today is a cautious compromise between the perceived needs of the people and the demands placed on Hungary as a result of its position within the Warsaw Pact. Government controls on the population are probably the most relaxed in Eastern Europe. But Hungarians have to accept certain definite limits on their



freedom. The Government does not allow any challenge to or questioning of the country's Communist system or the leading role of the party, although considerable debate over specific policies and even criticism of individual officials, including Kadar, is tolerated. Nor will the Hungarian Government permit any criticism of the Soviet Union or questioning of Soviet-Hungarian relations. Any breach of these taboos has usually brought on quick, though not usually severe, government reprisals, including exile to the West and short periods of imprisonment. Within these limitations, the Kadar policy appears to be one of live and let live.

In the cultural sphere, Hungary has assumed a more Western orientation. Western books, movies, plays, and music appear to predominate. Even local television programming has sought to become more competitive with the Austrian networks, which can easily be picked up by many TV sets.

Relations between church and state have improved over the years, although Hungary's Catholic Church (representing 65 percent of the population) does not wield the power of its Polish counterpart, due to the fact that 30 percent of the population is Protestant. There is relative freedom of worship in Hungary. It has the only remaining Jewish rabbinical seminary in Eastern Europe, serving the entire region. The Catholic Church and the Government negotiated an agreement in 1977, for the first time opening the Budapest Theological Academy to Catholic laymen wanting religious instruction.<sup>3</sup> In 1978, Evangelist Billy Graham toured Hungary and was allowed to stage a crusade before thousands of worshippers.

By East European standards, there is relative freedom of travel to and from Hungary. Almost 350,000 Hungarians visit Western countries each year and 12 million foreigners (more than Hungary's total population of 10 million) visit or transit Hungary.<sup>4</sup>

There are presently few political prisoners in Hungary.<sup>5</sup> While open dissent has not been widespread, there has been increasing dissatisfaction among workers and leftist intellectuals over some of the social consequences of the country's economic reforms. In particular, there has been bitterness over the growing wage differentials and the limited upward mobility for workers. A few leading intellectual dissenters have been pressured to leave the country. Others have been arrested and sentenced to short terms of imprisonment.

#### ECONOMIC CONDITIONS

Under its New Economic Mechanism (NEM), Hungary has introduced the most far-reaching economic reforms among CMEA countries and through concentrated emphasis on consumer production has achieved higher standards of living. The NEM program has resulted in an abandonment of economic autarchy, decentralization, a deemphasis of heavy industry, the introduction of profit incentives, and greater competition among enterprises. The country has moved in

<sup>3</sup> Catholic Laymen to Study at Budapest Theological Seminary. Radio Free Europe Research, Feb. 20, 1979, 5 pp.

<sup>4</sup> U.S. House. Committee on International Relations, Subcommittee on Europe and the Middle East. U.S. Policy toward Eastern Europe, hearings, 95th Congress, 2d session, Sept. 7 and 12, 1978. Washington, Government Printing Office, 1979, p. 16.

<sup>5</sup> Amnesty International, "Report, 1978." London, 1979, pp. 218-219.



the direction of Yugoslavia's "market socialism." Overall economic growth has been only average in relation to other CMEA countries. Hungary's GNP was estimated to be \$32 billion in 1978, or \$2,998 per capita.<sup>6</sup> Economic growth measured in national income was 4 percent in 1976. The 1976-80 plan for 5.5 percent annual growth may be difficult to attain.<sup>7</sup> NEM has produced major results in revitalizing the agricultural and service sectors of the economy and in specialized areas of industry such as pharmaceuticals. Not only has Hungary achieved virtual self-sufficiency in agriculture, but it has become the source for almost one-half of Hungary's export earnings. Pharmaceuticals now account for 4 percent of Hungarian exports and one-third of total production is now exported to the West and the Third World.<sup>8</sup>

The country currently faces a number of economic problems, some common to most East European countries and others more specifically related to the reforms. The country is deficient in energy resources and raw materials and must rely on increasingly expensive Soviet and other imports. It is highly dependent on foreign trade. Foreign trade accounts for one-half of GNP and one-fourth of its production is exported.<sup>9</sup> The Western share of this trade has grown rapidly. Some 50 percent of total volume is now with the non-Communist world.

Yet Hungary's exports have not kept pace with imports, and the deterioration in terms of trade has led to negative trade balances with the West as well as with other members of CMEA. Hungary's total hard currency debt is about \$4 billion, a figure not considered critical but still a problem for planners. To raise exports, Hungary, like other East European countries, must improve the quality of production and overcome the growing protectionist sentiments of many Western countries. Hungary also suffers from a growing labor shortage combined with low labor productivity. Given the country's zero population growth (after years of actually declining population) the shortage will have to be made up by increased productivity.

The social impact of the country's economic program has also concerned Hungarian leaders. Thanks to profit incentives, the encouragement of small-scale private enterprise, and widespread private "moonlighting," real disparities in earnings have developed. This has led to the reemergence of a relatively affluent class. The wage inequalities are made particularly embarrassing to a Communist government by the fact that blue-collar workers are generally at the bottom of the wage ladder, sometimes earning only one-tenth the salary of some professionals. The Soviet Union and other East European countries that have been watching the Hungarian reforms with considerable interest have been most critical of this feature of the Hungarian program.

The accumulation of these problems led to the retreat by Hungary from NEM after 1973, whether under Soviet pressure or on the basis of internal decisions. But since 1977 Hungary has again been moving ahead with its program. The next phase of the reforms may be the most difficult to implement. The Government is planning to remove price subsidies, letting prices find market levels, with a stated eventual goal of establishing a convertible currency. Current plans also call for increasing competition among enterprises and closing down those

<sup>6</sup> U.S. Central Intelligence Agency, National Basic Intelligence Factbook. July 1979, p. 87.

<sup>7</sup> Marer, Paul, op. cit., p. 585.

<sup>8</sup> "A Second Bite at Reform." *The Economist*, Mar. 24, 1979: 63.

<sup>9</sup> Comecon Survey, "The Banker," May 1978: 28.



which are not contributing to overall economic growth. These moves can be expected to cause serious short term dislocations. The ending of subsidies will mean increases in the cost of basic consumer goods which have thus far been kept artificially low. The first series of price increases has been accepted with relatively little protest but the real pinch has not yet been felt. The Government is hopeful that people will accept the expected period of austerity ahead more readily than was the case in Poland.

#### HUNGARIAN FOREIGN POLICY

The price the Hungarian leaders have paid for the country's internal autonomy and its freedom to expand economic and cultural ties with the West has been a very close adherence to Soviet foreign policy. Hungary is a member of the Warsaw Treaty Organization and the Council for Mutual Economic Assistance. Since World War II, the Soviet Union has stationed troops in the country. The southern group of Soviet Forces, consisting of four army divisions, two tank and two air divisions, and a total of 60,000 men has headquarters in Tokol.<sup>10</sup>

Hungary has supported the Soviet Union on every major foreign policy issue. Kadar has also stood in principle for tighter bloc cohesion, as his visit to Moscow in March 1979 and Brezhnev's return visit in June seemed aimed primarily to demonstrate. In practice Hungary has been less enthusiastic about some of the specific proposals for political and economic integration. Hungary has developed close ties with non-aligned Yugoslavia and has maintained a friendly attitude toward the independent Communist Parties of Western Europe. There have been recent strains in relations with Romania, resulting from Romania's treatment of its large Hungarian minority.

Kadar has been a vocal supporter of détente between East and West which he sees as a prerequisite for Hungary's open door to the West and even for its more liberal domestic programs. On a bilateral level, Hungary has moved to build closer ties with a number of Western countries, particularly France, Germany, Austria, and the United States. Hungary signed an agreement with Austria in 1978 which eliminated visa requirements for travel between the two countries. The Budapest government has indicated its intent to continue to improve bilateral relations with individual Western countries, although world economic conditions could lead to a partial reorientation of its trade to other CMEA members.

In the Third World, Hungary has been less active than Czechoslovakia or the German Democratic Republic but its ties, particularly economic ones, have grown in recent years. The Third World now accounts for approximately 15 percent of Hungary's foreign trade.<sup>11</sup> In addition, Hungary provides scientific and technical assistance to selected countries in Africa and elsewhere. Hungary's military aid to the Third World has been limited. In the coordinated Soviet-East European scheme for such assistance Hungary appears to have been assigned a special role in Mozambique. Hungary signed a military cooperation agreement with that country in 1978 and since then has been training Mozambique forces and providing other assistance.<sup>12</sup>

<sup>10</sup> Turbiville, Graham H., "Warsaw Pact Forces in Hungary: A Key Element in Pact Contingency Planning," *Journal of the United Services Institute*, vol. 121, December 1976, p. 48.

<sup>11</sup> "Hungary: Situation Report No. 6," *Radio Free Europe Research*, Mar. 16, 1979, p. 12.

<sup>12</sup> Berecznai, Aurel, "Hungary's Presence in Black Africa," *Radio Free Europe Research*, Apr. 3, 1979, p. CRS-102.



## HUNGARY'S FUTURE COURSE

Many analysts have raised the question of whether "Kadarism can survive Kadar." While Hungary's party leader is only 66 years old and could conceivably stay in power for a long time, there have been occasional hints that he might be prepared to retire early. Though the possibility exists that his successors could retreat from the reforms or be forced to do so under Soviet pressure, it is more likely that they will continue the Kadar program. Hungary's current leader has surrounded himself with moderates committed to his reform and the new leadership is likely to emerge from this group. The Soviet Union would certainly be in a position to force a reorientation of Hungarian policy but probably has little incentive to do so. Soviet acceptance of Hungary's divergence from the Soviet model rests on the fact that Kadar has been able to maintain stability in the country without threatening Soviet security interests. In addition, Hungary is probably performing a "test-tube" role for other Communist countries not yet prepared to initiate similar economic experimentation, but nevertheless looking at alternatives.

Thus the Hungarian course seems relatively secure as long as it is successful. If the system proves unable to cope with emerging economic and social problems and loses popular support, then the reforms could come under serious challenge. The rationale for Soviet acceptance would be lost if Hungarian leaders could no longer insure stability.



## POLAND

### SUMMARY

With a population of 35 million, Poland is the largest and, from the U.S. perspective, politically the most important country in Eastern Europe. U.S. policy is affected by the interests of a large Polish-American community.

Relations between Poland and the United States are generally good. Poland enjoys preferential trade treatment, and bilateral trade has exceeded \$1 billion annually in recent years. Future trade potential will hinge on Poland's ability to increase exports to the United States and other Western countries. A major problem in bilateral relations concerns the issue of family reunification. Hundreds of Poles want to join their families in the United States. In the view of the U.S. administration, the Polish Government is not doing enough to resolve these cases.

Under Communist Party leader Gierek, there has been considerable domestic liberalization since 1970. The powerful Roman Catholic Church has been able to play a significant role in Polish society. The economy and living standards have grown rapidly in recent years. Despite these factors, the Gierek government faces a serious challenge, stemming from short-term economic problems, coupled with rising popular expectations. The Government has been unwilling or unable to implement fully the austerity measures it views as necessary. With evidence of considerable worker and intellectual unrest, and a possible temporary decline in living standards, the situation in Poland is seen by Western observers as the most volatile in Eastern Europe.

### UNITED STATES POLICY TOWARD POLAND

U.S. policy has generally placed Poland in a special category among Communist countries. Under successive administrations, and with the general support of Congress, the United States has exempted Poland from some of the restrictions generally governing relations with Communist nations.

In 1957 the United States made Poland eligible to buy surplus grain and agricultural goods under title I of Public Law 480. In 1960, the two countries signed a claims agreement. Poland agreed to pay the United States \$40 million over 20 years. Subsequently, Poland received most-favored-nation status. In 1966 Poland became the first Communist country eligible for Commodity Credit Corporation credits to purchase agricultural goods. Poland subsequently received access to Export-Import Bank credits and export controls were applied more flexibly to goods destined for Poland than for other Warsaw Pact countries.

The special United States-Polish relationship has not meant a complete absence of bilateral tensions. In the late 1960's United States-Polish relations soured considerably. The United States was disap-



pointed by Poland's partial retreat from its previous policy of domestic reform. There were specific irritants to relations, such as active support by Poland for North Vietnam in its war with the United States, Poland's participation in the 1968 Czechoslovak invasion, and its general adherence to Soviet foreign policy.

The deterioration in bilateral relations was reversed in 1970 when the Government headed by Edward Gierek signaled its interest in closer cooperation. By 1972, relations had improved to the extent that President Nixon visited Poland, the first such trip to Warsaw by an American President since World War II, and President Ford visited in 1975. Most recently, President Carter traveled to Warsaw in 1977. While in Poland, he expressed satisfaction over the general state of relations in the political, economic, and cultural sphere. He praised Polish efforts aimed at helping to improve United States-Soviet relations, and indicated that Poland could continue to be a valuable intermediary between the superpowers. He also said that the United States would increase commodity credit grain sales to Poland by \$200 million over the \$300 million level already targeted.<sup>1</sup>

U.S. administration policy toward Poland recognizes and is sensitive to the special interest of a large segment of U.S. society, namely the several million Polish-Americans. The Polish-American community dates back to colonial times. Through the years Poles have emigrated to the United States for both political and economic reasons. Two of the largest groups of immigrants arrived in the United States in the late 19th century and at the end of World War II. Today there are close to 10 million Americans of Polish ancestry.<sup>2</sup> They are concentrated most heavily in New York, Illinois, Pennsylvania, Michigan, and New Jersey, but Polish-Americans are to be found in all 50 States. They maintain almost 10,000 organizations and societies, largest of which is the Polish National Alliance, founded in Philadelphia. Today, there are some 25 Polish language newspapers and periodicals put out by these groups.<sup>3</sup> Because of its size, the Polish-American community has had more influence on U.S. policy toward Eastern Europe than many other ethnic groups. Yet the ethnic Polish influence on U.S. policy is lessened by the fact that these organizations do not speak with one voice. While they generally oppose the current system in Poland and Soviet domination of the country, they do not necessarily agree on how their concerns should translate into U.S. policy.

U.S. policy also recognizes that Poland is the largest East European country which can play an important role in maintaining European security. It assumes that Soviet interests in the country are greater than those of the United States. Finally, the policy is in line with President Carter's human rights emphasis, to some extent rewarding less repressive Communist governments. For the past two decades, political conditions in Poland have been better for the average citizen than in neighboring countries.

In broad terms, the policy would appear to have served U.S. interests. While Poland has not shown as much independence from Moscow

<sup>1</sup> Weekly Compilation of Presidential Papers, No. 13, Jan. 2, 1978: 1957-71.

<sup>2</sup> Brown, Francis J. and Joseph S. Roucek, eds., *One America*, 3d ed., Westport, Conn., Negro University Press, 1970, pp. 143-57.

<sup>3</sup> Garrett, Stephen A., "Eastern European Ethnic Groups and American Foreign Policy," *Political Science Quarterly*, vol. 93, No. 2, summer 1978: 301-23.



in foreign policy as has Romania, Polish positions on a number of international issues have been more constructive and cooperative than those of most Warsaw Pact countries. Polish exposure to the West through a far-reaching exchange program may have served to strengthen liberal trends in the country. Nevertheless, some U.S. observers have questioned the wisdom of giving special treatment to any Warsaw Pact country, thereby enhancing the position of its Communist regime.

Today, serious economic problems in Poland and the resulting threat of domestic turmoil could threaten the political survival of the present leadership. This raises questions for the administration and the Congress. Would such turmoil in Poland harm U.S. interests? If so, how far can or should the United States go to help alleviate economic problems in Poland? What types of assistance would be appropriate or possible?

What kinds of concessions could or should be demanded in return for assistance? Would U.S. assistance serve to bolster the position of an ineffective government? How would a change in leadership affect U.S. interests?

### ISSUES IN BILATERAL RELATIONS

#### TRADE AND THE POLISH HARD CURRENCY DEBT

Bilateral relations have advanced furthest in the economic sphere. Poland has most-favored-nation status, as well as access to Export-Import Bank loans and Commodity Credit Corporation credits for the purchase of agricultural goods. The United States and other NATO countries apply less stringent export controls on sales to Poland than to other Communist countries. Trade turnover has increased rapidly from some \$150 million in 1970 to more than \$1.1 billion in 1978. Polish exports to the United States were led by meats, other food products, and manufactured goods. Polish imports consisted of food and agricultural goods, followed by machinery and transportation equipment. Figures for the first half of 1979 indicated a decline in trade compared to the same period in 1978.

#### UNITED STATES-POLISH TRADE<sup>1</sup>

[In millions of dollars]

|                     | 1977  | 1978    | January-June<br>1979 |
|---------------------|-------|---------|----------------------|
| U.S. exports.....   | 436.5 | 677.0   | 274.6                |
| U.S. imports.....   | 329.1 | 438.9   | 211.9                |
| Trade turnover..... | 765.6 | 1,115.9 | 486.5                |

<sup>1</sup> U.S. Department of Commerce, Office of East-West Policy Planning, U.S. Trade Status with Communist Countries, Aug. 24, 1979, p. 12.

The two countries are exploring further ways to expand economic cooperation although prospects for rapid growth in trade are somewhat dimmed by Poland's economic problems. Poland is currently the most heavily indebted to the West of East European countries, both in absolute terms and as a percentage of GNP. Only a relatively small percentage of this debt is owed the United States. Yet the continued ability of Poland to service its debt inevitably becomes an issue in the context of further U.S. credits and commercial ties to Poland.



The total Polish hard currency debt is presently estimated at about \$15 billion. Of this amount, \$1.2 billion is owed the United States.<sup>4</sup> In 1976, the debt equaled 11.1 percent of Poland's GNP in current dollars. The Polish debt to export ratio in 1976 was 3.1. While slightly higher than for other East European countries, except Bulgaria, this level of indebtedness is still quite modest when compared to the positions of many developing countries.<sup>5</sup>

Poland's hard currency picture may be less gloomy than is sometimes portrayed. Poland continues to maintain a good credit rating with Western lending institutions based on past performance and a belief among bankers that the Soviet Union and other CMEA countries would not allow any member country to default on its loans. At the same time, there is a possibility that Poland might seek to reschedule its payments to Western credit institutions. The prospects of Polish default are viewed as remote. Despite the Polish debt, U.S. companies have continued to show interest in expanded economic cooperation with Poland. Twenty U.S. firms now have offices in Warsaw and American banks have opened branches there. But opportunities may diminish as the Polish Government itself has taken a conscious decision to decrease imports from the West. Future expansion of bilateral trade may depend most heavily on Poland's ability to increase its exports to the United States.

#### FAMILY REUNIFICATION

The problem of family reunification is currently an important issue in Polish-American relations. The United States has more family reunification cases outstanding with Poland than with any other East European country. According to the Sixth Semiannual Report of the President to the Commission on Security and Cooperation in Europe, there were, as of May 1979, some 434 individuals seeking to be reunited with immediate families and another 2,651 waiting to join nonimmediate families in the United States. Over the past 5 years, only 33 percent of cases raised by the U.S. Embassy have been favorably resolved.<sup>6</sup> Also, Polish authorities have allowed a number of families to be reunited without U.S. Government intervention. In the past 4 years some 15,000 Poles have emigrated to the United States. Despite the signs of progress, the Carter administration has viewed Polish Government cooperation on this issue to be less than adequate and difficult to explain. Poland, together with 34 other countries, pledged to work to resolve this problem in the Helsinki Final Act. It is in the context of that pledge that the United States is pressing for resolution of the issue.

#### BACKGROUND

##### HISTORICAL FACTORS

In World War II, Poland was overrun by German and Soviet forces. The Polish underground, as well as Polish troops fighting abroad, continued to contribute significantly to the Allied war effort.

<sup>4</sup> U.S. Congress, House, Committee on International Relations, Subcommittee on Europe and the Middle East, U.S. Policy Toward Eastern Europe, hearings, 95th Congress, 2d session, September 1978. Washington, U.S. Government Printing Office, 1979.

<sup>5</sup> U.S. Congress, Joint Economic Committee, Issues in East-West Commercial Relations: A Compendium of Papers, Washington, U.S. Government Printing Office, Jan. 12, 1979, pp. 180, 183.

<sup>6</sup> Sixth Semiannual Report of the President to the Commission on Security and Cooperation in Europe, December 1978-May 1979. Department of State Special Report No. 54, July 1979, pp. 14-15.



Poland's post war development was influenced by the advance into the country of Soviet forces and the great power agreements at Yalta and Potsdam. The Soviet Union annexed some 70,000 square miles of Polish territory in the East and in return Poland was given 40,000 square miles of former German territory in the West. This had the effect not only of moving Poland some 150 miles westward but also of making it more dependent on the Soviet Union to preserve its territory. Large scale population transfers that followed, particularly the expulsion of millions of Germans, left Poland with a relatively homogeneous population.

According to the postwar settlements, Poland was to determine its future governmental system on the basis of free elections. But as in other East European countries the Soviet-backed Communist Party, manipulating what was at first a coalition, gained complete control by 1947. The ensuing years brought a struggle, more intense than elsewhere in Eastern Europe, between national Communists led by Wladislaw Gomulka and the "Muscovites" led by Beirut. The Muscovites gained the upper hand in 1948 and Poland under Beirut entered a period of intensive "Sovietization."

Western hopes that Poland would maintain a more Western orientation were ended in July 1947 when the Polish Government refused to participate in the Marshall Plan. In 1950, Poland signed a declaration and a treaty with East Germany establishing the Oder-Neisse Line as the final border.

Even in the Stalinist period, public opinion placed some restraints on government action and the Roman Catholic Church continued to play its traditional role as the protector of Polish culture against Russian and German influences. The Communist leaders were reluctant to confront the church directly. Friction between the church and the government nevertheless intensified, climaxing with a series of show trials of church leaders in 1953. The church survived the government crackdown and remained a force with which the government had to reckon, commanding the loyalty of the overwhelming majority of Poles. Economically, the period prior to 1956 brought heavy industrialization, the nationalization of most private enterprise, and a push to collectivize farms.

The death of Stalin in 1953 led to no immediate change in Poland. Beirut continued in power until after the 20th Soviet Communist Party Congress in 1956 had launched the "de-Stalinization" drive. Dissatisfaction among workers and intellectuals led to riots in Poznan that threatened to spread throughout the country. The crisis led finally to the reemergence of Wladislaw Gomulka as the leader of the Communist Party. With the change at the top came a rapid process of liberalization in domestic policy and signs that Poland might exercise greater independence in its foreign policy. In the economic realm, the push for agricultural collectivization was stopped, and priorities were shifted from the heavy industrialization to consumer production. Small scale private enterprise, particularly in the service sector, was again permitted.

In the foreign policy field Poland was taking some independent initiatives, the most prominent of which was the Rapacki plan for a nuclear free zone in Central Europe (1959). Poland also showed itself to be less hostile toward the more independent Communist parties than was the Soviet Union or some of its East European allies. Most im-



portantly, relations with West Germany slowly improved. A West German trade mission was established in Warsaw in 1963 and economic cooperation was increased.

It became evident by the early 1960's that the Gomulka government's reform programs were limited, stopping short of Western hopes for a uniquely Polish course in foreign and domestic policy. Evidence was provided by the enlargement of the secret police force, several purges within the Communist Party, and a major crackdown against intellectual dissidents in 1964. Poland's foreign policy autonomy also proved to be limited, as Poland continued to follow the Soviet lead on major issues. In addition, economic problems and steep price rises caused growing popular discontent.

In 1970 the government was shaken and finally toppled by a series of worker strikes and disturbances which erupted at the Baltic sea-ports and threatened to spread into a national crisis. The riots were triggered, as so often in Poland, by consumer price increases; but they reflected a far broader discontent. In December 1970, a discredited Gomulka was replaced by Edward Gierek as Communist Party leader. One of his first acts was to rescind the price increases. This move was coupled with a relaxation of political controls.

#### CURRENT POLITICAL TRENDS

Poland is the largest (population 35 million) and currently one of the less stable countries in Eastern Europe. The Polish system of government is patterned on the Soviet model. Political power rests in the Communist Party whose membership is over 2.5 million. Unlike other Communist governments, the Polish leadership must contend with a powerful rival force, the Roman Catholic Church, claiming the allegiance of some 90 percent of the Polish population. The church has shown on a number of occasions its willingness to challenge party policies with which it disagrees. Church-state relations have improved in the 1970's, as the Government has begrudgingly recognized that it needs church cooperation to implement key programs. The selection of Polish Cardinal Wojtyla as the new Pope in 1978 may have further strengthened the position of the church. After initial hesitation, the Government joined the population in celebrating the selection of the first Polish Pope. The visit of Pope John Paul II to Poland in June 1979 caused some Government uneasiness, and was the subject of delicate negotiations. The visit was a serious test for church-state harmony. Despite some uneasiness on both sides, the event went relatively smoothly and may have furthered Vatican-Polish relations.

Poles enjoy greater freedom in the political, cultural, and economic sphere than most East Europeans. Almost 80 percent of Polish farmland is still privately owned. There is a significant private business sector still operating in the country and the standard of living in Poland has risen steadily over the last decade. Despite these achievements, the Gierek leadership may be in the least secure position of any East European government. There is considerable worker and intellectual unrest as a result of the perceived inability of the Government to solve the country's economic problems. Many of the roots of those problems are external and beyond the control of the Government. Nevertheless, beginning with the riots over food price increases



that were quickly rescinded in June 1976, vocal discontent has been on the rise.

The Government has responded to dissent alternatively with "carrot and stick." While generally more tolerant toward dissent than other East European governments, Polish leaders have on occasion resorted to police harassment and other punitive measures against critics. The rioting in 1976 led to many arrests. A group of prominent intellectuals responded with the formation of a Committee of Worker's Defense (KOR) to provide financial aid for families of those arrested and to seek their release. In 1977, on the eve of the Belgrade CSCE meeting, the Movement for Defense of Human Rights was established. Another group formed in the same period was the Polish Independence Accord. It called for the gradual transformation of Poland into a democratic and independent country. By 1977, the Government had released all the participants in the 1976 events but the dissident groups continued their activities in defense of human rights. The KOR changed its name to the Committee for Social Self-Defense and committed itself to the general cause of human rights.<sup>7</sup>

Most Western analysts believe that the possibilities of East European upheaval today are greatest in Poland. Discontent is expected to intensify as austerity measures are introduced to solve the country's economic problems. The past record demonstrates that public opinion is a powerful force which can topple governments in Poland. Gierek himself rose to power in 1970 as a result of public dissatisfaction with his predecessor Gomulka. In the past, the Soviet Union has backed changes of government in Poland when stability was seriously threatened by public discontent. Seemingly recognizing his own vulnerability, Edward Gierek made a strong plea for continuity in party policies and programs at the 13th Party Central Committee Plenum in December 1978.<sup>8</sup> The 1980 Polish Communist Party Congress may provide the forum for decisions on continuity versus change in Polish policies.

#### ECONOMIC SITUATION

Poland has made significant economic advances in the past decade. It is now one of the 10 leading industrial nations in the world with a GNP in 1978 of \$108.3 billion. In terms of per capita gross national product (\$3,094 in 1978) and living standards, Poland ranks near the middle among East European nations. In terms of economic growth between 1970 and 1976, Poland ranks second in Eastern Europe behind Romania. Polish national income grew by 7.5 percent in 1976. The 1976-80 plan called for 7.1 percent annual growth, but actual growth for the period was expected to be under 6 percent annually.<sup>9</sup> Poland is rich in coal, copper, and other raw materials, and is one of the world's major steel producers. It is dependent on imports of oil and agricultural goods. A degree of economic decentralization has been introduced into the system, although economic reforms have been more modest than those of some Communist countries, notably Yugoslavia and Hungary. The Gierek plan for rapid economic growth and modernization has relied on the massive import of Western technology.

<sup>7</sup> De Weydenthal, Jan B. "Poland Facing the Brink," *Current History*, April 1978: 160-62.

<sup>8</sup> Radio Free Europe Research, Situation Report: Poland, Jan. 12, 1979.

<sup>9</sup> Marer, Paul, op. cit., p. 535, and U.S. Department of Commerce, "East West Trade Update: A Commercial Fact Sheet for U.S. Business," January 1979, p. 10 (OBR-7902).



The leadership hoped for a sharp rise in Polish exports to the West to pay for its technology imports. However, due to a combination of the continued low quality of some Polish goods and the Western recession, Poland has not been able to achieve its export goals.

Poland shares many economic problems with other East European countries, including low productivity, overmanning combined with a labor shortage, the negative effects of Western inflation, and the rising price of Soviet oil and other raw materials. In Poland, these problems are compounded because the Government is unable to implement needed price increases and austerity measures. A short-term decline in the Polish standard of living is almost inevitable, with unforeseeable political consequences. In view of its indebtedness to the West, and its desire to reduce hard currency imports, Poland has sought to ease its balance of payments problems by reorienting its trade increasingly to other Communist CMEA countries and imports from the West have been reduced. Close to 60 percent of Polish trade turnover is now with other Communist countries.<sup>10</sup> In addition, Poland has been forced to seek loans and credits from the Soviet Union to alleviate some of its more pressing problems. In 1976, Poland received a \$1.3 billion loan from the Soviet Union and assurances of increased grain deliveries.<sup>11</sup>

The Polish 1976-80 5-year plan gives priority to agriculture and food production, consumer goods and services, and housing. It calls for reductions of imports of raw materials and foreign technology. Total imports are to rise only 26 percent over the 5 years, while the plan calls for exports to rise by an ambitious 75 percent, a figure many Western economists believe is unattainable. Total industrial output is to rise by 50 percent.<sup>12</sup>

#### FOREIGN POLICY

Poland is a member of the Warsaw Treaty Organization and the Council for Mutual Economic Assistance (CMEA) and its foreign policy is closely tied to that of the Soviet Union. Two Soviet divisions are stationed in Poland, with the Northern Group of Soviet forces headquartered in Legnica. Although Poland has not opposed the Soviet Union on any major policy issues, it has shown less enthusiasm toward further integration than have some bloc countries (the GDR, Czechoslovakia, and Bulgaria). Poland did apparently support the Soviet Union in its dispute with Romania over integration of the military command structure and the question of raising defense spending at a Warsaw Pact meeting in Moscow in November 1978. It did so despite the fact that the increase seems likely to add to Poland's current economic difficulties.

While emphasizing its alliance with the Soviet Union, Poland has actively pursued good relations with countries outside the Communist bloc and has sought a role for itself as a bridge between East and West. Polish relations with the West were given a major boost by the normalization of relations with West Germany. In the bilateral treaty of 1971, the Federal Republic recognized the Oder-Neisse boundary between Poland and the GDR. The two countries also reached an

<sup>10</sup> Comecon Survey, *the Banker*, May 1978: 22-26.

<sup>11</sup> *The Washington Post*, Nov. 20, 1976.

<sup>12</sup> Zbigniew M. Fallenbuchl in U.S. Congress, Joint Economic Committee, "East European Economies Post-Helsinki." Washington, U.S. Government Printing Office, Aug. 25, 1977, pp. 860-63.



agreement, facilitating emigration by ethnic Germans still residing in Poland. West Germany has since become Poland's main Western trading partner, ahead of France. In the major East-West negotiations, such as CSCE and MBFR, Poland has often adopted more moderate attitudes than its East European allies. Travel between Poland and the West has been less restricted.

Poland has also maintained close relations with the more independent Communist Parties of Western Europe. At the 1976 Berlin Conference of European Communist Parties, as well as on other occasions, Poland has sought to smooth relations between the pro-Soviet and "Euro-Communist" parties.

The Warsaw Government appears to be devoting less effort to ties with the developing countries. Polish trade with the LDC's remains at a modest level (less than 10 percent of total trade). Poland has not played as active a role in support of Third World "national liberation movements" as have neighboring Czechoslovakia and the GDR.



## ROMANIA

### SUMMARY

Relations between the United States and Romania have progressed well since the 1960's, primarily as a result of Romania's independent stand in foreign policy, often differing with its Warsaw Pact allies on such key issues as the Arab-Israeli dispute, relations with China, and policies in the Third World. Romania has on several occasions sought to play a mediating role in international disputes.

The United States has granted preferential trade treatment to Romania, including access to credits, most-favored-nation status, and duty-free entry for some of its products. As a result, trade has grown rapidly and Romania is the only East European country with which the United States currently has a trade deficit. The two countries have set a target of \$1 billion annual trade volume by 1980. The prospects for further rapid growth in commercial relations are somewhat hindered by Romanian policies restricting foreign investment and maintaining secrecy with regard to data on Romanian economic performance.

Romania's domestic development has been more static than its foreign policy. Domestic policies have evolved relatively slowly since the 1950's, showing little political, cultural, and economic liberalization. Both the human rights situation in Romania generally and specific policies aimed at rapid assimilation of the country's ethnic minorities have come under severe criticism from Western human rights organizations. Romania has responded to U.S. congressional concerns over its restrictive emigration policy by increasing the flow of emigrants in recent years.

### UNITED STATES POLICY TOWARD ROMANIA

Romania has developed the broadest and most diversified ties with the United States among Warsaw Pact member countries. This special relationship is primarily a result of Romania's independent foreign policy. Although Romania is a member of the Warsaw Pact, it takes different stands from other Warsaw Pact members on a number of key issues.<sup>1</sup>

Before Romania began to set its own course in the 1960's, United States-Romanian relations were at a modest level. The United States and Romania had no history of extensive ties. There was no large Romanian-American community to focus attention on relations with Bucharest. In the late 1940's and the 1950's, U.S. relations with Romania were strained as they were with most East European countries.

Relations improved in the 1960's once Romania had begun to establish its independence from the Soviet Union and to seek expanded ties with the West. The United States recognized that Romania's independent foreign policies often coincided with broader U.S. interests. In 1960,

<sup>1</sup> Romania is the only East European country which maintains friendly relations with Israel and Bucharest has sought to act as a mediator in the Arab-Israeli dispute.



Romania made a partial settlement on claims owed the United States and the two countries agreed to initiate a cultural and scientific exchange program. In May 1964 the two countries initiated economic talks. A joint communique issued on June 1 announced that U.S. export licensing procedures for Romania would be eased and that Romania would be eligible for U.S. Export-Import Bank credits. In addition, the two countries agreed to elevate their legations to embassy status. The Soviet invasion of Czechoslovakia in 1968 and the perceived danger that Romania could become the next target, brought the United States and Romania still closer.

There have been a number of bilateral summit meetings. President Nixon made the first visit to Eastern Europe by an American President since World War II when he visited Romania in 1969. President Ceausescu visited the United States in 1970, 1973, and 1978. President Ford visited Romania in August 1975, followed by the first U.S. military delegation a month later. The two countries signed a consular convention in 1972 when Secretary of State Rogers visited Bucharest.

President Carter has continued the emphasis of his predecessors on friendly relations with Romania and public support for its independence. He hosted visiting President Ceausescu in April 1978 and sent Secretary of the Treasury W. Michael Blumenthal to Bucharest at the height of tensions between Romania and the Soviet Union over defense spending in December 1978. Despite this continued U.S. interest, there are elements of discord in relations between this administration and Romania. Romania appears uneasy over the administration's human rights policy not only because of its own vulnerability but because of its perceived harmful impact on détente. In turn the current administration may be less comfortable with Romania than its predecessors because of Bucharest's rigid internal controls and human rights violations.

The United States faces a question regarding Romania of how far to pursue a special relationship in support of Bucharest's autonomy from Moscow. The favored approach seems to be to continue on the cautious course of granting Romania limited preferences to encourage a constructive Romanian role in international relations and possibly a relaxation of Romania's domestic controls. This policy takes into account the limits placed on Romania's autonomy by the realities of its relationship with the Soviet Union and seeks to avoid intensifying Soviet-Romanian tension in a way that might trigger a Soviet-Romanian showdown.

## ISSUES IN BILATERAL RELATIONS

### TRADE

It is in the economic sphere that United States-Romanian relations have made the most visible gains. During President Ceausescu's 1973 visit to the United States, a United States-Romanian Economic Commission was established to promote trade. In 1975, Romania became the first East European country to sign a trade agreement with the United States since the passage of the Jackson-Vanik amendment linking most-favored-nation status for Communist countries to their emigration policies. Romania received most-favored-nation treatment under



a Presidential waiver. The waiver must be renewed each year and must receive the approval of both the House and Senate. While Romania accepted the terms of the legislation, it has been sharply critical of the requirement that trade preferences must be renewed annually because of the uncertainties that interjects into commercial relations. Proposed legislation to grant multiyear MFN, if passed, would to some extent relieve those uncertainties.

In November 1976, the two countries signed a 10-year trade agreement that was described as the most far reaching of any with an East European country. Despite expanding economic relations, the United States still ranks only eighth among Romanian trading partners, well behind the Soviet Union, with almost 30 percent of Romania's trade, and West Germany. However, the United States and Romania have set a target of \$1 billion annual trade by 1980. To reduce hard currency deficits, Romania will continue to seek countertrade and co-operation projects with U.S. firms. In addition, Romania is encouraging joint ventures with U.S. companies in third countries. To diversify its raw materials sources, Romania has invested in a U.S. coal company and signed a long-term \$1 billion contract to import coal from the United States.<sup>2</sup> U.S. business has been slow to undertake joint ventures in Romania, in part because of Romania's shortcomings in supplying accurate economic information, essential to investment decisions by foreign firms.

## UNITED STATES-ROMANIAN TRADE

|                     | 1977  | 1978  | January-June<br>1979 |
|---------------------|-------|-------|----------------------|
| U.S. exports.....   | 259.4 | 317.4 | 259.7                |
| U.S. imports.....   | 233.3 | 346.6 | 167.5                |
| Trade turnover..... | 492.7 | 664.1 | 417.2                |

Romania is the only East European country with which the United States had a trade deficit in 1978. This is due in part to the fact that the United States allows a number of Romanian products into the country duty free under the U.S. generalized system of preferences, established in 1976 to help developing countries. The main U.S. exports to Romania in 1978 were raw materials, machinery, and agricultural products. The main U.S. imports consisted of mineral fuels and manufactured goods.<sup>3</sup>

While Romania enjoys preferential treatment over most Communist countries in its relations with the United States, it still faces U.S. export controls and legislative restrictions against Foreign Assistance Act credits and grants. The elimination of export controls on strategically sensitive materials for Romania seems unlikely in view of Romania's continuing alliance relationship with the Soviet Union and the broad Soviet access to Romanian industrial facilities through its many technical advisers there. On the other hand, Romania has indicated its interest in becoming eligible for benefits under the Foreign Assistance Act.

<sup>2</sup> U.S. Department of Commerce, United States-Romanian Trade Trends, January-December 1978. April 1979, pp. 1-11.

<sup>3</sup> U.S. Trade Status with Communist Countries, U.S. Department of Commerce, Office of East-West Policy Planning. Aug. 24, 1979, p. 13.



## EMIGRATION AND FAMILY REUNIFICATION

Under the Jackson-Vanik amendment to the Trade Act of 1974, Romania's continued receipt of U.S. most-favored-nation status is linked to its emigration policy. Romania has allowed a large number of people to emigrate since it received MFN in 1975. In 1978 Romania allowed 1,400 Jews and some 10,000 ethnic Germans to leave the country. At the same time, citizens requesting permission to leave who have been unable to do so because of inability to get U.S. entry visas, have reportedly suffered reprisals, including loss of jobs, housing and other hardships.

The United States is seeking to resolve family reunification problems with Romania within the framework of the Helsinki accords. In May 1979, the State Department reported that there were 328 divided family cases outstanding between the United States and Romania, involving 712 individuals, a figure second only to that between the United States and Poland. The Romanian Government was nevertheless said to be more forthcoming in seeking resolution of the problem.<sup>4</sup>

## BACKGROUND

## HISTORICAL FACTORS

The early years of Romania's postwar development followed the pattern of other East European countries. King Michael was deposed in 1947 and a people's republic was proclaimed. Romania introduced policies of rapid industrialization and forced agricultural collectivization under Communist Party leader Gheorghiu-Dej. In the 1950's Romania followed the Soviet lead in domestic and international affairs.

The country joined the Warsaw Treaty Organization when it was founded in 1955. In 1958 Soviet troops were withdrawn from Romania, opening the door to greater autonomy. By 1961 Romania had introduced cautious measures aimed at reducing the Soviet influence including a deemphasis of Russian as a second language. The first serious dispute between Romania and the Soviet Union resulted from Soviet proposals in 1962 that Romania, along with other East European countries, subordinate its economy to supranational plans within a more closely integrated CMEA (the Soviet bloc economic organization) and that Romania, as part of a plan for national specialization, remain essentially a supplier of agricultural, unfinished, and semi-finished goods for the other East European countries. This proposal was unequivocally rejected by the Romanian leadership.

Romania subsequently took steps to further its independence from the Soviet Union. In 1963 Romania ended the compulsory study of Russian in schools. It restored relations with Albania, despite the latter's break with the Warsaw Pact. Also in 1963, Romania published a letter from the Chinese Communist Party Central Committee attacking the Soviet Union. In April 1964, Romania issued what was in effect a declaration of independence, saying that it would henceforth be guided by its own national interest in setting policy.

Gheorghiu-Dej died in 1965. He was succeeded to the party leadership and later the Presidency by Nicolae Ceausescu who continued

<sup>4</sup> Sixth Semiannual Report by the President to the Commission on Security and Cooperation in Europe on the Implementation of the Helsinki Accords, December 1978-June 1979. U.S. Department of State, Special Report No. 54, July 1979, pp. 14-15.



Romania's nationalist policies, steering a careful course within the apparent limits of Soviet tolerance. Romania sought to strengthen its autonomy by balancing its Warsaw Pact relations with closer ties to the West, including the United States. In a major speech in 1966, Ceausescu called for the dismantling of both the Eastern and Western military alliances and the withdrawal of foreign troops from all countries, a theme to which he would return repeatedly.

Western countries reciprocated Romanian efforts to improve relations. Contacts and agreements between the United States and Romania multiplied in the 1960's. Romania became the first East European country (aside from the Soviet Union) to establish diplomatic relations with the Federal Republic of Germany in 1967. Romania maintained an even handed approach in the Middle East dispute. Relations with Israel were established in 1967 and were elevated to the ambassadorial level in 1969. Romania bitterly denounced the Soviet invasion of Czechoslovakia in 1968 and warned that it would defend by force if necessary its own right to an independent "road to socialism."

Romania's maverick foreign policies, which appealed to popular national sentiment, were not matched by new initiatives in domestic affairs. Romania's Communist Party retained tight control over the population with the aid of a security apparatus second in size in Eastern Europe only to that of the Soviet Union. In the economic sphere, Romania also maintained rigid central controls. Despite the absence of major economic reforms, the country achieved one of the highest growth rates in the world. However, Romanian living standards remained low. Western analysts believe that the unchallenged domestic control by a Communist Party that strictly adhered to the traditional Leninist ideological, political, and economic model internally has been a major factor in Soviet acceptance of Romania's foreign policy "deviations."

#### CURRENT POLITICAL SITUATION

The Romanian Communist Party continues to maintain tight controls over Romanian political, social, and cultural life. Various government and party reorganizations over the years have served primarily to reinforce the position of the party. This feature of Romanian policy has been emphasized by Nicolae Ceausescu who, despite his defense of the "Eurocommunist" parties on principle for their right to independence from Moscow, has continued to endorse the "dictatorship of the Proletariat," a concept rejected by those parties. A further unique feature of the Romanian situation is the personality cult surrounding Nicolae Ceausescu and nepotism in the selection of high officials.

Open dissent is a relatively new phenomenon with which the Romanian leadership has had to contend. In 1977 Romania experienced a strike by workers, as well as a youth riot after the overbooking of a concert. A "Worker's Free Union" (SLOMR) has been formed by Ionel Cana and Cheorghe Brasoveanu. The illegal group now claims 1,400 members. The Romanian Government has used a combination "carrot and stick" approach in dealing with dissidents. The founders of SLOMR were arrested in March 1979. Other members have been arrested or harassed by police. The circulation of an open letter by Paul Goma and others, criticizing Romanian human rights violations on the eve of the Belgrade Conference on Security and Cooperation in



Europe, led to the intimidation and arrest of some members of the group and eventual permission for some dissidents to emigrate from the country.<sup>5</sup>

Romania has received domestic and foreign criticism for its treatment of national minorities. There are over 2 million Hungarians and a sizable number of ethnic Germans living in Romania.<sup>6</sup> The minority issue flared up in 1975 when a group of Hungarian and German-Romanians protested against government discrimination. In 1977 an ethnic Hungarian member of the Romanian Communist Party Central Committee, Karoly Kiraly, took a public stand condemning the mistreatment of ethnic Hungarians. A report commissioned by the London-based Minority Rights Group in 1978, as well as one prepared by Amnesty International, accused Romania of discriminating against the Hungarian minority.<sup>7</sup>

#### ECONOMIC POLICIES

Romania has achieved the highest economic growth rates in Eastern Europe in recent years. Although Romania considers itself a developing country, its 1978 GNP was \$67.5 billion (or \$3,100 per capita).<sup>8</sup> National income growth in 1976 was 10.5 percent. The 1976-80 plan called for annual national income growth of 10.5 percent.<sup>9</sup> At the 1977 Romanian Communist Party National Conference, President Ceausescu reaffirmed the goal of rapid industrialization through 1985. Consumer satisfaction has been given low priority. Thus living standards have not kept pace with economic growth. Romania has maintained a highly centralized economy, largely untouched by reforms until recently. In March 1978 the Romanian Government did announce modest reforms designed to improve efficiency, increase worker participation in management of state enterprises, and provide worker incentives.

Western economists expect Romanian growth rates to decline somewhat as the reserves of new labor that have been brought into industry are exhausted and the country moves from an extensive to an intensive phase of its development.

Romania's energy situation has been better than that of other East European countries because it is the largest East European producer of crude oil and natural gas. Romania has 80 percent of proven East European oil reserves and 40 percent of gas reserves. But the reserves are dwindling rapidly and Romania is now holding down production of both resources. In 1975 Romania was still a net oil and gas exporter but is now moving to a position of net importer. The Romanian oil and petrochemical industry is expected to remain an important source of hard currency revenues.<sup>10</sup>

Romanian nationalism has extended to the economic sphere. Although a member of CMEA, the Eastern trading bloc, Romania has

<sup>5</sup> Farlow, Robert L. "Romania: the Politics of Autonomy," *Current History*, vol. 74, April 1978: 169.

<sup>6</sup> The exact number of ethnic Hungarians is in dispute. Romania census figures place the Hungarian population at 1.8 million. Independent estimates range from 2 million to 3 million.

<sup>7</sup> Amnesty International, "Romania." New York, 1978: 35-42.

<sup>8</sup> U.S. Central Intelligence Agency, *National Basic Intelligence Factbook*, July 1979, pp. 164-65.

<sup>9</sup> Marer, Paul, op. cit., p. 535.

<sup>10</sup> U.S. Congress, Joint Economic Committee, *East European Economies Post Helsinki. Eastern Europe: Growing Energy Problems*, by John R. Haberstroh. Washington, U.S. Government Printing Office, 1977, pp. 379-95.



sought to diversify its trade relationship with the non-Communist world. More than half of Romanian trade turnover is now with non-CMEA countries. However, the trend toward increased trade with the West has recently been reversed by a decline in Romanian exports to the region and a rising hard currency debt that reached between \$500 and \$600 million for 1977 alone.<sup>11</sup> Romania relies heavily on imports of raw materials aside from oil and gas. Its efforts to minimize its raw material dependence on the Soviet Union by finding non-CMEA suppliers has also been dealt a setback by the rapid rise in raw material prices and the need to pay non-Communist suppliers in hard currency. Nevertheless, Romania has the most diversified economic dealings with the advanced Western countries of any CMEA member. Romania was the first CMEA country to enter into bilateral arrangements with the European Economic Community. It has joined the International Monetary Fund, the World Bank, and the General Agreement on Tariffs and Trade (GATT). It is involved in a wide range of joint ventures with Western firms.<sup>12</sup>

Since 1972 Romania has sought to establish an identity as a developing nation and has received many of the preferences granted by the West to developing Third World nations. It has been able to draw on low interest loans from the IMF and other international lending institutions. It has also been able to increase substantially the volume and percentage of its trade with the Third World.

#### ROMANIAN FOREIGN POLICY

Romania's foreign policy, since its declaration of independence in the early sixties, has been one of measured autonomy and a fluctuating relationship with the Soviet Union. Romania continues to be tied to the Soviet alliance system through membership in the Warsaw Treaty Organization and the Council of Mutual Economic Assistance. Within those multilateral organizations, however, Romania has blocked Soviet attempts at tighter integration or supranational organization. It has fought against Soviet claims to leadership over the international communist movement and has supported the independence of other Communist parties, including those of China, Yugoslavia, and the countries of Western Europe, regardless of their ideology. In 1968 Romania walked out of a conference of Communist Parties in Budapest as a protest against Soviet attacks on China. As the Sino-Soviet split deepened, Romania alone among Warsaw Pact nations continued to maintain good state and party relations with China. These relations appear to have been strengthened in the post-Mao period. In May 1978 Romanian President Ceausescu visited the People's Republic of China and in August Chinese Premier Hua Guo-Feng visited Romania and Yugoslavia. These visits were bitterly condemned by the Soviet Union.

Romania's consistent vocal opposition to the existence of both of the military blocs (NATO and the Warsaw Pact) and its efforts to minimize its own role in the latter, have long been a sore point in bilateral relations with the Soviet Union. Tensions between the two countries reached a high point in November 1978, when President

<sup>11</sup> U.S. Industry and Trade Administration, *Foreign Economic Trends and their Implications for the United States: Romania*. Washington, D.C., April 1978, p. 6.

<sup>12</sup> Comecon Survey, *the Banker*, May 1978: 34.



Ceausescu rejected a Soviet proposal at the Warsaw Pact summit in Moscow that each country increase its defense spending in response to recent NATO increases.<sup>13</sup> It was reported that at the same summit, Romania again rejected a more integrated military command structure. In January 1979, Romania again went against the Warsaw Pact majority by condemning the Vietnamese invasion of Cambodia. After a series of polemics between Romania and the Soviet Union, Romanian Foreign Minister Stefan Andrei visited Moscow to smooth relations.<sup>14</sup>

Romania continues to play a similar role in CMEA, where it has blocked attempts to set up a supranational structure or to assign specific roles to different countries. In 1970 Romania blocked an attempt to remove the unanimity rule covering CMEA decisionmaking, and has since that time refused to be bound by majority decisions in that economic organization.

Romania has worked to maintain good relations with the advanced Western countries, with such nonbloc Communist countries as Yugoslavia and China, and since 1972 has made a concerted effort to establish close relations with Third World countries and gain acceptance in the nonaligned movement where it currently enjoys observer status.<sup>15</sup> In the Middle East, Romania is the only Warsaw Pact country that maintains good relations with both the Arab States and Israel, acting on a number of occasions to mediate their dispute. Romania gave its cautious approval to the Camp David summit of 1978. Through each of these policies Romania feels it can strengthen its autonomy from the Soviet Union in the long run and has thus far skillfully avoided precipitating a showdown with the Soviet Union.

<sup>13</sup> *Scinteia* (Bucharest), Nov. 26, 1978: 1-3.

<sup>14</sup> *Pravda* (Moscow), Jan. 31, 1979 (FBIS-Soviet Union, Feb. 2, 1979: D1-4).

<sup>15</sup> King, Robert R. "Romania and the Third World," *Orbis*, vol. 21, winter 1978: 875-92.



## YUGOSLAVIA

### SUMMARY

U.S. relations with Yugoslavia are qualitatively different from those with other East European Communist countries. Since Tito's break with the Soviet bloc in 1948, the United States has not applied the same restrictions on Yugoslavia as those placed on other Communist countries. Yugoslavia has received preferential trade treatment, access to low-interest loans, arms sales, and in an earlier period, substantial amounts of military and economic aid. Bilateral trade has been at a significant level.

Despite these special ties, relations between the United States and Yugoslavia have not always been smooth. The two countries have often been on opposing sides in major international disputes. As a leading member of the Third World nonaligned movement, Yugoslavia has supported various "national liberation" forces. Recently, however, Yugoslav President Tito has shared U.S. concern over the growing Soviet, Cuban, and East European involvement in the Third World, and relations with Yugoslavia have improved considerably under the present administration.

There is considerable speculation about uncertainties for Yugoslavia after President Tito's departure. Much of the speculation focuses on the deep-seated animosities among the different nationalities making up the Yugoslav federation. There is a danger that the Soviet Union might exploit troubles within Yugoslavia in an attempt to regain its influence. The main aim of U.S. policy toward Yugoslavia has been to support its independence and nonalignment. Were that independence to be threatened, the United States would face decisions concerning the risks and price it is willing to pay to assist Yugoslavia. Any major military or economic assistance would require congressional approval.

### UNITED STATES POLICY TOWARD YUGOSLAVIA

Since the Soviet-Yugoslav rift in 1948, successive Presidents from Truman to Carter have emphasized the American interest in maintaining Yugoslav independence and neutrality between East and West. After the Soviet invasion of Czechoslovakia in 1968, President Johnson warned the Soviets against unleashing "the dogs of war" by any similar move into Yugoslavia. In a joint statement during President Tito's visit to the United States in 1971, President Nixon underlined the U.S. support for Yugoslav nonalignment. President Ford stressed the same theme in Belgrade in 1975. President Carter, clarifying earlier campaign comments, has reaffirmed the previous administration positions. In March 1978, President Tito visited Washington for the third time. During his visit, President Carter gave Yugoslavia one of the strongest statements of support of any U.S. administration. He called Yugo-



slav independence a basic foundation of world peace. President Carter addressed a primary source of previous bilateral tension when he promised to act forcefully to stop anti-Yugoslav terrorism by exiled Yugoslav opponents of Tito in the United States.

The primary U.S. objectives in Yugoslavia have been to deny the Soviet Union hegemony over the country and to insure that Yugoslavia would not become a base for Soviet operations which might threaten the regional balance in Europe, the Mediterranean, and the Middle East. This U.S. interest coincides with basic Yugoslav interests. Nevertheless, bilateral relations have fluctuated over the years. From the U.S. viewpoint, a major cause of friction has been the perception that Yugoslav neutrality and nonalignment are too often tilted against the United States.

On the other side, despite the demonstration of U.S. support, Yugoslavia has never been entirely confident of American good intentions. The Yugoslav reaction to comments on Eastern Europe attributed to Helmut Sonnenfeldt at a 1976 briefing to U.S. Ambassadors in London attests to this. In what has since been labeled the "Sonnenfeldt doctrine," he allegedly argued that it would be useful if Eastern Europe had a more "organic" relationship with the Soviet Union. He did not intend this statement to apply to Yugoslavia. He depicted U.S. interest in Yugoslavia as "bordering on the vital" but allegedly added that Yugoslavia needed to be less "obnoxious."<sup>1</sup> President Tito attacked the Sonnenfeldt remarks, calling them a matter of "calculating the bills without the innkeeper."<sup>2</sup>

Relations were least troubled during the period 1950-57 when the United States was the major supporter of Yugoslavia. By 1957, the Soviet Union was supplying Yugoslavia with weapons and equipment, as a result of the reconciliation between Khrushchev and Tito in 1956. In 1960, the administration decided to end military assistance since there was practically no chance of congressional approval of further military aid. Economic aid to Yugoslavia was terminated in 1967. U.S. economic assistance granted in the period 1950-67 was valued by the Department of State at \$2 billion.

## ISSUES IN BILATERAL RELATIONS

### TRADE RELATIONS

Yugoslavia enjoys extensive economic relations with the United States and has generally received preferential trade treatment over most Communist countries, although Congress has on occasion withdrawn certain benefits from Yugoslavia in response to specific policies that were viewed as unfriendly to the United States. For example, in 1961, following the Belgrade meeting of nonaligned countries (where Tito one-sidedly denounced the United States but did not criticize the Soviet resumption of atmospheric nuclear tests), Congress sought to pass discriminatory trade legislation against Yugoslavia, although it was never implemented. Later, in 1966, the Food for Peace Act barred U.S. credits for the purchase of agricultural goods by Communist countries, including Yugoslavia, because they supplied as-

<sup>1</sup> State Department summary of Sonnenfeldt Remarks. New York Times, Apr. 6, 1976.

<sup>2</sup> Teslic, Vlado. International Current Affairs: Rejection of the Doctrine and Policy of Spheres of Interest. Borba, Apr. 19, 1976: 4. FBIS: Eastern Europe, Apr. 19, 1976: 1-12.



sistance to North Vietnam.<sup>3</sup> Most U.S. economic assistance was ended by 1967.

Yugoslavia does receive U.S. most-favored-nation treatment. It is eligible for Export-Import Bank Credits and Overseas Private Investment Corporation benefits. While Yugoslavia is seeking to restrict its imports from the United States and other Western countries in order to reduce its hard currency deficit, it encourages joint ventures between United States and Yugoslav firms. There are currently over 20 such joint ventures. The largest such endeavor is the \$700 million petrochemical plant built jointly by Dow Chemical and INA. Westinghouse is building a nuclear powerplant in Slovenia in another major undertaking.

#### UNITED STATES TRADE WITH YUGOSLAVIA<sup>1</sup>

|                     | 1977  | 1978  | January-June<br>1979 |
|---------------------|-------|-------|----------------------|
| U.S. exports.....   | 357.0 | 474.9 | 379.8                |
| U.S. imports.....   | 333.0 | 394.6 | 210.2                |
| Trade turnover..... | 690.0 | 869.5 | 590.0                |

<sup>1</sup> Figures supplied by the Department of Commerce.

#### WEAPONS SALES TO YUGOSLAVIA

Major U.S. arms shipments to Yugoslavia were terminated in 1960. The Soviet Union subsequently became Yugoslavia's primary foreign supplier, although the United States continued to sell military equipment to the country on a limited scale. In 1978, the administration decided once again to increase arms shipments to Yugoslavia. Secretary of Defense Harold Brown visited Belgrade in 1977 and Yugoslav Defense Minister Ljubicic came to the United States in September 1978 to discuss weapons sales. U.S. arms shipments to Yugoslavia reportedly reached \$1.4 million in fiscal year 1978 from under \$1 million the previous year and were to be increased to between \$5 to \$10 million over the next 2 years.<sup>4</sup>

Proposals for American transfers of sophisticated weapons to Yugoslavia have been the subject of controversy within the United States, given the absence of assurance that the U.S. technology will not fall into Soviet or other hands. One of the paradoxes of the Yugoslav situation is that, because the Soviet Union is presently the major supplier of Yugoslavia's military needs, the armed forces of the two countries maintain close links at many levels. Suspicions have been voiced that the Soviet Union may have gained access to certain U.S. weapons through Yugoslavia in the past. Another U.S. concern is that Yugoslavia might transfer U.S. arms to warring Third World factions, as it did to Ethiopia.

#### DIFFERENCES OVER GLOBAL ISSUES

Once the immediate Soviet threat to Yugoslavia was removed, the differences between the United States and Yugoslavia became more apparent. The policies of the two countries clashed in many areas of

<sup>3</sup> Johnson, A. Ross, *The United States stake in Yugoslavia, 1948-68*, p. 10.

<sup>4</sup> Major Expansion of Arms Sales to Yugoslavia Planned by U.S. *Aerospace Daily*, No. 29, September 1978 : 130.



the world. Yugoslavia supported the Communist side in the Vietnam war. During the Middle East wars of 1967 and 1973, Yugoslavia not only backed the Arab side but urged the Soviet Union to come more decisively to the aid of the Arabs. Soviet planes flying equipment to the Arab nations were permitted to land in Yugoslavia. The United States and Yugoslavia were on opposite sides on the Angolan and Southern African issues. Yugoslavia has been a critic of the United States in the U.N. and other international organizations.

More recently, there has been greater cooperation and agreement on international problems between the two countries. Extensive consultations occurred during Vice President Mondale's visit to Belgrade in May 1977 and the late Edvard Kardelj's visit to the United States. During President Tito's visit to the United States in 1978, the two leaders issued a joint communique calling for the withdrawal of Soviet and Cuban personnel from Africa. At the meeting of the nonaligned nations in Havana in September 1979, President Tito was a leading opponent of Cuban sponsored moves to bring the nonaligned movement closer to the Soviet Union.

### BACKGROUND

#### HISTORICAL FACTORS

Yugoslavia was created after World War I as a multinational federation of South Slavs living in the territory of the former Austro-Hungarian and Turkish empires. The interwar period was characterized by struggle among competing nationalities.

Yugoslav resistance campaigns against the German occupation during World War II were among the most effective in Europe, despite the fact that the rival Fatherland Army (Chetniks) and the National Liberation Army (Communist-led Partisans) fought each other as they fought the Germans. The Allies eventually recognized the Partisans, led by Josip Broz Tito, on the belief that they were carrying on the more effective fight against the Axis. Allied support and supplies helped Tito's Partisans eventually gain the upper hand and establish a government in captured territory.

The immediate postwar history of Yugoslavia was similar to that of other East European countries. A coalition government was established in 1945 under Communist domination. After what have been described as "rigged" elections in 1946, Yugoslavia became a "people's republic" under complete Communist control. In the 1945-48 period Tito-led Yugoslavia seemed to be one of the most loyal Soviet satellites. However, in June 1948 the dramatic break between Tito and Stalin became public and Yugoslavia was expelled from the Cominform (the Soviet-dominated successor to the Communist International). There followed a Soviet campaign to sabotage Tito's government and replace it with a Stalinist leadership.

The United States stepped in with massive military and economic aid to support Yugoslavia against Soviet pressure. Yugoslavia was able to maintain its independence. After Stalin's death, the Soviet Union sought a reconciliation with Yugoslavia and in the 1955 Belgrade Declaration the new Soviet leader Nikita Khrushchev formally accepted Yugoslavia's independence or "separate road to socialism." Bilateral relations were further improved with the signing of the



Moscow Declaration in 1956. After the partial reconciliation with the Soviet Union, Yugoslav relations with the United States began to cool. Yugoslav ties with both the United States and the Soviet Union have fluctuated since, but Tito has never abandoned his independence from both powers.

Once Yugoslavia gained independence from Moscow, it began to introduce changes in its political and economic system. Political controls over the population were relaxed, though the Tito government tolerated dissent only up to a point. Yugoslav authorities regularly cracked down on opposition groups and purged leaders who were thought to have nationalistic tendencies in the federation's individual republics. There was a major purge of Serbian leaders in 1966 and of Croatian leaders in 1971.

Over the years, Yugoslavia expanded its system of federalism. The decisionmaking authority of the six republics and two autonomous regions was expanded. A system of "worker self-management" was introduced, giving employees some say through workers councils in the running of factories, and so forth. Paralleling these political changes were reforms in the economic structure. Decentralization and market socialism were introduced during the 1950's. Forced collectivization of farms was stopped. The Yugoslav reforms became a model, partially adopted much later by some other Communist countries.

To the extent that a Yugoslav identity exists, Tito can take credit for skillfully balancing the interests of different nationalities. Tito has applied ideological doctrine less rigidly than most of his counterparts in Eastern Europe. While Yugoslavs have not enjoyed Western-style freedom, they have been subjected to fewer restrictions than the populations of most Communist countries. They have been allowed to travel more freely than other East Europeans. In recent years almost one million Yugoslavs have been working in Western Europe.

#### CURRENT POLITICAL TRENDS

Yugoslavia has taken a number of formal steps, designed in part to facilitate a smooth transition after Tito. He is not only President of Yugoslavia but also the leader of the Communist Party and commander in chief of the armed forces. In 1971 and 1974 changes were introduced to the Government structure, aimed at insuring a more equitable distribution of top-level positions among the nationalities. A collective Presidency was established in 1971 for the purpose of insuring a smooth transition once President Tito is gone. The Collective Presidency was streamlined in 1974. It was reduced in size from 23 to 9 members in 1974. The membership was to be made up of one representative each from the six republics and two autonomous Provinces, as well as the President of the League of Communists of Yugoslavia (LCY).

According to the 1974 Yugoslav Constitution, the Collective Presidency is the supreme policymaking and executive body. Its members are to be chosen for 5-year terms. After Tito, the Presidency is expected to rotate among the members, each serving 1-year terms.

Major changes in the Communist Party (League of Communists of Yugoslavia) structure occurred as well. Prior to 1972, the party had gradually relinquished its absolute control over day-to-day affairs. The party structure had been decentralized and federalized. These trends



were suddenly reversed with the issuance of the so-called Tito letter in 1972, calling for the restoration of the party to its dominant position in society. Tito's guidelines were endorsed at the 10th Congress of the LCY in 1974.<sup>5</sup> At the 11th Congress of the LCY in June 1978, Tito was confirmed as President of the party for life and Stane Dolanc was elected to a 1-year term as Secretary of the LCY Presidium.<sup>6</sup> The latter move seemed to have strengthened Dolanc's position as a possible successor to Tito, who is 86 years old. However, the LCY Central Committee adopted new rules in November 1978 that again served to cloud the picture. The rules stressed that no single person after Tito could dominate the collective presidium. Branko Mikulic was named to fill in as Presidium deputy in President Tito's absence. No one had previously held that position and it seemed to elevate Mikulic to a position rivaling that of Dolanc.<sup>7</sup>

The Yugoslav military establishment, consisting of the regular armed forces, the reserves, and paramilitary forces, is one of the largest in Europe. The armed forces are considered one of the country's most cohesive forces. Its highly centralized organization together with that of the party, contrasts sharply with the diffusion of authority in other organizations. There is a close link between the military and other arms of the Government and party. Military leaders have been appointed to high-level party and Government positions. The structure of the armed forces reflects the country's major commitment to defense of its non-alignment.<sup>8</sup>

The regular armed forces presently consist of 267,000 men, including 200,000 in the army, 40,000 in the air force, and 27,000 in the navy. In addition there are 500,000 reservists, 16,000 frontier guards, and a territorial defense force of 1,000,000.<sup>9</sup>

Nationalist rivalries probably are the most divisive and potentially explosive problem in Yugoslavia, casting a shadow over Yugoslavia's post-Tito evolution. At present, economic disparities are a major factor fueling the resentment among nationalities. Slovenia and Croatia are more developed and affluent than many other republics. While the Government has made some attempts to redistribute the country's wealth, these moves have sharpened resentment in the richer republics without removing the economic inequalities. Underlying the economic problems are a number of historical and cultural differences. While the number of active separatists among the nationalities is thought to be small, the authorities are taking no chances and are cracking down whenever such trends surface. Despite these precautions, both Serbian and Croatian nationalists have become more active recently.

The human rights movement, which was almost crushed in 1976, is also reemerging, encouraged by the publicity given to the cause of human rights at the 1977-78 Belgrade Conference on Security and Cooperation in Europe. In early 1978, a group of 92 Yugoslav intellectuals signed a statement of support for Czechoslovak "Charter 77" human rights activists.<sup>10</sup> After prominent dissident Mihajlo Mihajlov

<sup>5</sup> Walkin, Jacob, *Yugoslavia After the 10th Party Congress*. Survey, vol. 22, winter 1976: 55.

<sup>6</sup> *Politika* (Belgrade), June 24, 1978.

<sup>7</sup> Stankovic, Slobodan, *Yugoslav Party To Be Ruled Collectively*. Radio Free Europe Research, Nov. 15, 1978, 4 pp. (RAD background report 245).

<sup>8</sup> Horhager, Axel, *Yugoslavia's Defense: The Logic of Politics*, *International Defense Review*, No. 5, 1976: 734-35.

<sup>9</sup> *The Military Balance, 1978-79*, London, International Institute for Strategic Studies, 1978: 32.

<sup>10</sup> Antic, Zdenko, *Yugoslavia's Pluralist Dissent*, Radio Free Europe, Oct. 2, 1978 (RAD background report 216).



was released from prison in 1977, he again became a critic of Government rights violations. In 1978 he was allowed to visit the United States and other Western countries where he called for continued Western pressure to advance human rights. A U.S. Department of State report on human rights conditions in countries receiving U.S. aid, issued in February 1979, found that Yugoslavs enjoyed more freedom than the citizens of any other Communist country but that their political rights were still sharply curtailed.

#### ECONOMIC TRENDS

Yugoslavia's course has been significantly affected by economic considerations since 1948. The Yugoslav-Soviet dispute in part had economic origins. Soviet leaders viewed Yugoslavia's economic experimentation as a threat. The policies of worker self-management and economic federalism contradicted Soviet views on the need for central control by the party. A significant economic rationale can be seen for Yugoslavia's policy of nonalignment. Yugoslavia still includes some of the least developed regions in Europe. Since the partial reconciliation with the Soviet Union, Yugoslavia has benefited from special economic ties with the East, the West, and the Third World. Yugoslavia gained membership in the International Monetary Fund, the International Bank for Reconstruction and Development (World Bank), the General Agreement on Trade and Tariffs, and associate membership in the European Economic Community, as well as the socialist bloc's Council on Mutual Economic Assistance. Yugoslavia's position in the Third World and its pro-Arab policies have facilitated access to raw materials and Middle East oil.<sup>11</sup> In the fall of 1978 the European Economic Community approved guidelines for a new trade agreement with Yugoslavia that would allow for a substantial expansion of Yugoslav exports to its member countries and facilitate cooperation in a number of areas.

Yugoslavia, with a GNP in 1978 of \$55.3 billion (\$2,500 per capita), has achieved high economic growth rates in recent years.<sup>12</sup> Annual growth in social product was 4 percent in 1976 and the plan for 1976-80 called for 7 percent annual growth, ranking Yugoslavia fourth among East European countries. Current annual economic growth is approximately 7 percent.<sup>13</sup> Forecasters predict that this rate can be continued, although inflation (currently 14 or 15 percent) and a serious balance of payments deficit are clouding the picture.<sup>14</sup>

Currently Yugoslavia conducts the largest (and growing) share of its foreign trade with the industrialized Western countries, followed by the countries of the Socialist bloc. However, the CMEA share in Yugoslav trade has declined since 1976. For 1977, 57 percent of Yugoslav imports came from the West, 29 percent from CMEA countries, and 14 percent from the developing world. The Western share of Yugoslav exports was 40 percent, the CMEA countries' share was 39 percent and 21 percent of Yugoslav exports went to the Third

<sup>11</sup> For example, the lucrative Adria pipeline venture involves Libyan oil shipped to Yugoslavia and through Yugoslavia to other countries.

<sup>12</sup> U.S. Central Intelligence Agency, National Basic Intelligence Factbook, July 1979, p. 218.

<sup>13</sup> Marer, Paul, op. cit., p. 535.

<sup>14</sup> Quarterly Economic Review of Yugoslavia: Fourth Quarter, 1978, London, the Economist Intelligence Unit., Ltd., 1978. 14 pp.



World.<sup>15</sup> In the first half of 1978, both Yugoslav exports and imports were down over the same period in 1977.<sup>16</sup>

#### FOREIGN RELATIONS

Under Tito, Yugoslavia has had a position of importance in the world that goes beyond what its size and resources would warrant. His country has occupied an important position between East and West. Arguing that a general relaxation of tensions is the best guarantee for Yugoslavia's future, he has been a key spokesman for East-West reapproachment. The choice of Yugoslavia as the host for the 1977 follow-up meeting to the Conference on Security and Cooperation enhanced the country's position as a proponent for détente.

Tito is one of the founders of the Third World nonaligned movement. The First Conference of Nonaligned States was held in Belgrade in 1961. His relations with Third World leaders are shaped in part by the belief that Yugoslavia shares common interests as a developing country. The nonaligned movement is made up of countries with different ideologies sharing in most cases a desire to remain independent of the two superpowers. His efforts to institutionalize the nonaligned movement can also be seen as a move to bolster Yugoslav independence from the Soviet Union. Tito has been an advocate of the redistribution of wealth between the rich and poor countries and has been particularly critical of the Soviet Union and other Communist countries for not doing more to aid underdeveloped nations.<sup>17</sup>

While generally supporting so-called national liberation movements in the developing world, he has opposed big power involvement in Third World disputes. Whereas in the past this opposition was most often voiced to U.S. involvement, Yugoslav leaders have become increasingly concerned with Soviet activities in Africa and Asia. At the 1978 nonaligned meeting in Belgrade, Tito sharply attacked the Soviet Union and Cuba for their activities in the Horn of Africa. He questioned Cuba's claim to membership in the nonaligned movement in view of Havana's close ties to Moscow. At the nonaligned meeting in Havana (September 1979), President Tito again made a strong plea for keeping the movement independent from both the United States and the Soviet Union.

Yugoslavia plays a special role in the international Communist movement. The Yugoslav Communist Party was the first to reject Soviet Party claims of its own primacy. Tito developed the doctrine of "independent roads to socialism" and was a strong advocate of the concept of equality among all Communist Parties. The Soviet Union was eventually forced to accept formally the proposition that there is no one Communist center. The Yugoslav formulation on the independence and equality of all Communist parties was endorsed at the 1976 meeting of European Communist Parties in Berlin.

The Soviet Union acknowledged Yugoslavia's right to independence, if reluctantly, in the Belgrade Declaration of 1955 and the Moscow Declaration of 1956. However, Soviet leaders have continued to show a major interest in Yugoslavia for strategic and ideological reasons. There is concern within Yugoslavia that the Soviet Union might try

<sup>15</sup> Radio Free Europe Research, Feb. 2, 1978 (background report 25).

<sup>16</sup> Quarterly Economic Review of Yugoslavia, op. cit.

<sup>17</sup> Hazelhurst, Peter, Tito Role in Keeping Peace is Praised, the Times, Aug. 18, 1976: 4.



to bring Yugoslavia back into the Socialist bloc if the opportunity arises, particularly during the post-Tito succession. A continuing cause for Soviet-Yugoslav friction has been the refusal of the Soviet Union and some other Warsaw Pact countries to recognize explicitly Yugoslavia as a nonaligned country, and perhaps by implication, as a country independent from the Socialist bloc. Even more worrisome for Yugoslavia than polemics has been the active support that the Soviet Union has given to anti-Tito factions inside the country and in exile. A number of so-called Cominformists have been arrested in recent years. A leading pro-Soviet opponent of Tito, Vlado Dapcevic, was sentenced to 20 years in prison in July 1976.<sup>18</sup>

LCY Executive Secretary Stane Dolanc visited the Soviet Union in November 1975 mainly to discuss the problem of Soviet interference in Yugoslavia. Following the meeting, Soviet leaders moved to publicly disassociate themselves from the acts of pro-Soviet dissidents in Yugoslavia.<sup>19</sup> When Leonid Brezhnev visited Yugoslavia in 1976 he felt compelled to publicly assure his hosts that the Soviet Union was not considering intervention.<sup>20</sup> Relations with the Soviet Union appeared to be improving for a time. But Chinese party leader Hua Guo-feng's visit to Belgrade in August 1978, and his denunciation of the Soviet Union while in Yugoslavia led to a new round of verbal attacks between Yugoslavia and the Soviet Union. Yugoslavia's close ties with neighboring Romania and its outspoken support of Romanian autonomy have also been a source of strain. However, during the recent Soviet-Romanian dispute over Warsaw Pact organization and defense expenditures, Yugoslavia acted with unusual restraint, prominently reporting the dispute but generally withholding commentary.<sup>21</sup> After similar initial caution in commenting on the Vietnamese invasion of Cambodia, Yugoslavia sharply condemned the Vietnamese aggression in January 1979. The Soviet Union responded by accusing Yugoslavia of intriguing against the Socialist countries at the United Nations and elsewhere.<sup>22</sup>

<sup>18</sup> Bourne, Eric, Pro-Soviet Yugoslav Jailed in Belgrade, *Christian Science Monitor*, July 7, 1976: 9.

<sup>19</sup> Browne, Malcolm W., Soviet Criticism of Tito's Foes Welcomed Warmly in Belgrade: *New York Times*, Nov. 29, 1975: 10.

<sup>20</sup> Brezhnev's Belgrade Speech, TASS, Nov. 15, 1976 (FBIS wire service).

<sup>21</sup> *Politika* (Belgrade), Nov. 27, 1978.

<sup>22</sup> *Politika* (Belgrade), Jan. 13, 1979.









