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NOTE

This Report supplements that of Charles Gati (April 1990) entitled "THE BLOC THAT FAILED: Soviet-East European Relations in Transition", and the textbook bearing the same title published by Indiana University Press in May 1990. It is one of a series of lectures given during the summer of 1990, all of which, together with the textbook and a course given at Georgetown University, were funded by the Council to strengthen East European studies.
EXECUTIVE SUMMARY

Before Mikhail S. Gorbachev assumed the leadership of the Communist Party in 1985, the practices of the Kremlin toward Eastern Europe included both "rude" and "arrogant" treatment. Moreover, in his first several months as General Secretary, Gorbachev gave the impression that he planned to adopt an even tougher line toward the East Europeans than either Andropov or Chernenko had.

However, by the 27th CPSU Congress in February 1986, it was widely believed that Gorbachev's agenda included, above all, rapprochement with the West and domestic reforms in the Soviet Union. Eastern Europe did not appear to be a priority on Gorbachev's agenda except in the area of economic integration, i.e. the Council for Mutual Economic Assistance (CMEA).

Gorbachev, from the start, indicated his desire to tighten economic cooperation within the Eastern Bloc. A three-pronged approach was used by Gorbachev which contained an inherent contradiction. First, Moscow urged its allies to adopt radical economic reforms. Second, the Kremlin seemed determined to use CMEA as the instrument for obtaining closer collaboration. Finally, Moscow undertook what might easily be interpreted as a new economic penetration of Eastern Europe, which took the form of joint Soviet-East European ventures, with the USSR supplying the raw materials and its junior partners the rest, repaying Moscow with a rather high share of the final output to be marketed in the Soviet Union.

Evidently, Gorbachev's policy evolved for two reasons: A) he believed that an economically viable Eastern Europe would be a politically stable region and that, in turn, economic efficiency, well-being, and interdependence would most likely strengthen the cohesion of the alliance; and B) interdependence would provide a key linkage to economic cohesion without having to rely on oppressive or coercive measures.

However, by July 1988, it became apparent that Gorbachev's policy planning was faulty. The 44th CMEA Council saw only two CMEA nations follow Gorbachev's lead, and few others paid lip service to his calls for reform.

The paper concludes that as of mid 1990 the prospects of a major turnaround in CMEA's fortunes do not appear bright and CMEA itself is likely to remain an empty shell and ultimately fade out of existence.
It may be taken for granted that the ruling elites in Eastern Europe did not know what to expect of Mikhail Gorbachev when he assumed power in the USSR in March 1985. This was really not surprising, considering the fact that the new Soviet leader was somewhat of a dark horse in the Soviet Union itself and his prior experience in the party and the government did not include dealing with Eastern Europe. It may also be assumed that the individual East European leaders were hoping that the new occupant of the Kremlin would be more understanding of their needs and difficulties than his immediate predecessors. Many of the leaders remembered Brezhnev's rude treatment of Poland during the 1980-1981 crisis, which included the threat of reviving his own "Doctrine," as well as Chernenko's arrogant veto of Bulgaria's and East Germany's rapprochement with Bonn in 1984. The initial signals out of Moscow were not encouraging: following his ascent to power, Gorbachev staged several bilateral and multilateral meetings with his East European counterparts and the overall impression was that he was poised to adopt a tougher line toward the East Europeans than either Andropov or Chernenko.

Fairly soon, however, the early pessimism gave way to a belief that Gorbachev's agenda included above all rapprochement with the West and domestic reforms in the Soviet Union — and that Eastern Europe was to be relegated to the back burner, at least for the time being. Thus, after initially proclaiming his determination to re-assert Eastern Europe's crucial role in Soviet policy, Gorbachev had very little to say about the region in his major address at the 27th CPSU Congress in February 1986. This seemed further to reaffirm the view that contrary to earlier expectations, Eastern Europe did not, after all, appear very high on Gorbachev's list of priorities, with
the significant exception of economics which, of course, was bound to include the Council for Mutual Economic Assistance, or CMEA.

In fact, in contrast to Moscow's seeming indifference in the military, political and ideological spheres, Gorbachev right from the start indicated his strong interest in tightening economic cooperation within the Warsaw alliance, using a three-pronged approach which, as will be shown below, contained an inherent contradiction. On the one hand, Moscow, at least implicitly, urged its allies to follow its lead in introducing radical economic reforms. On the other, the Kremlin seemed determined once again to use CMEA as the chief instrument of closer economic collaboration between the USSR and the six smaller East European countries of Bulgaria, Czechoslovakia, East Germany, Hungary, Poland and Romania. And finally, without publicizing it too widely, the Soviet Union undertook what might be easily interpreted as a new economic penetration of Eastern Europe, which took the form of joint Soviet-East European ventures, with the USSR supplying the raw materials and its junior partners the rest, repaying Moscow with a rather high share of the final output to be marketed in the Soviet Union. ¹

While opinions differed as to the real significance of the new policy, there was no doubt that Soviet interest in the East European economies in the second half of the eighties appeared much stronger than in the past. There were two reasons for that. It is not inconceivable that one of them has been Gorbachev's belief that an economically viable Eastern Europe would also be a politically stable and viable region and that, in turn, economic efficiency, well-being and interdependence would most likely strengthen the cohesion of the alliance. While this formula resembled somewhat Khrushchev's emphasis on legitimacy based on consumerism, it went beyond it by stressing economic
interdependence as providing a key linkage in enhancing cohesion without necessitating coercive or oppressive measures.

Furthermore, one can imagine that in Gorbachev's mind, Eastern Europe was to play an important role in contributing to the process of perestroika in the Soviet Union. In his zeal to see the Soviet reforms succeed, especially in the economic realm, the Soviet leader may well have envisaged the CMEA Six contributing much more than before to the development of new sources of raw materials and to the enhancement of the Soviet consumer goods market.

What were the results of this new approach? Presumably to underscore his interest in a revived CMEA, Gorbachev's first formal meeting with his East European counterparts after his accession to power was on the occasion of the 30th anniversary of the Warsaw Pact, and the second at the 41st meeting of the CMEA Council in Moscow in December 1985. Some major policy innovations emerged from the latter meeting and, as if to reaffirm his concern for CMEA, a few months later, at the previously mentioned 27th CPSU Congress, Gorbachev delivered himself of the following statement which clearly reflected his novoe myshlenie regarding East European integration:

In our view, changes are also required in the work of the very headquarters of socialist integration -- the Council for Mutual Economic Assistance. But the main thing is that in carrying this programme there is less armchair administration and fewer committees and commissions of all sorts, that more attention is given to economic levers, initiative, and socialist enterprise, and that work collectives are drawn into this process.

Gorbachev's impatience with the bureaucratization of CMEA was not surprising in light of his subsequent attack on heavy handed Soviet apparat which resisted perestroika in the Soviet Union. However, the underlying premise behind his appeal for greater stress to be laid on "economic levers," was
based on his hope that the smaller East European countries would embrace the idea of perestroika and initiate radical and comprehensive economic reforms. Without such reforms any major restructuring and rationalizing of CMEA made little sense.

It soon became clear that Gorbachev's hopes were wide of the mark. Among the CMEA Six, only Hungary and Poland continued to expand the scope of their reforms and, in general, followed Moscow's lead in emphasizing the importance of the market at the expense of the plan. In contrast, East Germany and Romania refused to toe the Soviet line and essentially maintained their traditional policy. While paying lip service to the USSR as a source of their inspiration, both Bulgaria and Czechoslovakia embarked on superficial, cosmetic-like reforms.

In a situation of this kind, it proved virtually impossible to achieve consensus with regard to reforming CMEA. A good illustration of the continuing stalemate was provided by the 44th CMEA Council session in Prague, held on July 5-7, 1988. Judging from the publicity which preceded the meeting, the session sought to achieve an agreement to proceed with the creation of a real common market which, in time, would achieve a status similar to that of the European Economic Community. The idea received strong support from the Soviet Union, Hungary and Poland, a somewhat lukewarm approval from Bulgaria and Czechoslovakia, conditional endorsement from East Germany and a total disapproval from Romania. A similar division took place in discussions concerning the introduction of a convertible currency without which a common market had no chance of being realized.4

In keeping with its previously stated policy of non-interference, the Soviet Union chose not to use its still powerful economic leverage in order
to impose consensus on CMEA. It may also be speculated that had Moscow opted for the latter solution, it would not be able to extract obedience from the recalcitrant members and for that reason the Kremlin adopted a cautious stance in the belief that the political cost of intervention would exceed its economic benefit. Moreover, while Gorbachev was clearly interested in reviving CMEA as a means of extracting East European resources in support of his perestroika, there were at least two other sources of East European economic "aid" which, if anything, appeared more promising.

One of them was the result of the worldwide decline in fuel prices which reduced the value of Soviet energy exports to the West, diminishing the windfall profits reaped by Moscow over the past decade or so. At the same time, however, as a consequence of the CMEA foreign trade price formula, the East European countries in the mid-eighties were being charged for the Soviet fuel imports prices higher than the world market prices. To be sure, as the latter stabilized, Moscow's advantage would gradually disappear but for the time being at least, the heavy cost of Soviet pseudo-subsidies to Eastern Europe would give way to a reverse flow from the CMEA Six to the USSR.

Potentially more rewarding was the growth of two kinds of Soviet-East European initiatives: joint CMEA ventures in the Soviet Union and cooperative arrangements involving Soviet and East European enterprises. Relatively few details of these bilateral deals have been made public but at first glance it appeared that as a result of the new policy the individual East European economies would be closer tied to the Soviet economic system than at any time in the past.

The Polish-Soviet agreement provided a good illustration of the new relationship. In the wake of martial law, Poland found itself in a very
precarious position: because of the double burden of Western sanctions and onerous debt repayment service, Polish industry became faced with a growing shortage of raw materials and semi-manufactures, as well as with rapidly shrinking markets for its exports, raising a specter of factory closings and mass layoff. The Soviet offer to supply the necessary inputs in exchange for finished products seemed like a best solution in the circumstances and, besides, Poland really had no other choice.6

Countries other than Poland, although in less desperate straits, were also forced into similar arrangements. It appeared that what CMEA has not been able to accomplish in close to forty years of its existence, namely to achieve economic integration of the region, was being achieved without CMEA's participation. Admittedly, it was turning out to be a different kind of integration based on strictly bilateral arrangements, yet from the Soviet vantage point, it functioned as a useful device mobilizing East European resources for the purpose of helping out in achieving perestroika in the USSR.

Limited evidence at my disposal suggests that the above scheme did not turn out to be a resounding success. Again, according to Polish data, it appeared that while it was relatively easy to reach an agreement, its implementation proved difficult if not impossible. The main obstacle, which has also been a perennial bane of CMEA's existence, were the continuing differences between the Soviet and Polish economic systems. Despite the proclaimed perestroika, the former was still run along traditional lines with output, prices, wages and profits centrally regulated, whereas the latter was rapidly becoming subjected to market forces. The old rules which stressed barter exchanges and which treated prices as essentially meaningless, no
longer applied in the Polish case and the whole joint endeavor began stagnating, with Poland and the Soviet Union showing much greater interest in establishing cooperation with Western firms than with each other.\(^7\) The failure of the Soviet-Polish venture was most likely replicated by that of Soviet-Hungarian cooperation and one may assume that even in the remaining cases where the systemic differences were slight, other factors conspired to make joint Soviet-East European ventures difficult.

Thus, to an outside observer, the second half of the eighties witnessed the disappearance of favorable opportunities which should have facilitated closer CMEA integration. The lifting of Western sanctions and successful East-West negotiations leading to a temporary easing-off of the debt repayment burden, combined, at least in the short run, to postpone the immediate economic crisis threatening some of the CMEA Six. Although the Western credit largesse was a thing of the past, certain West European states resumed granting loans to Hungary and it was only a matter of time before Poland could once again expect Western help. Both these countries, which also rejoined IMF and the World Bank, received some help from these institutions. Finally, a treaty between CMEA and the European Community, signed in June 1988, promised some improvement in the economic relations between both parts of Europe.\(^8\)

Although by 1989 all these measures were still in the nature of promises rather than concrete accomplishments, the overall atmosphere of East-West relations was a far cry from the freeze characteristic of the early eighties. As indicated above, the temporary suspension of East-West detente left the East European countries little choice but to turn eastward: today this no longer applied and, as a result of a declining Soviet leverage, the individual countries began to enjoy greater elbow room than earlier than in the decade.
What about the Soviet Union and its attitude toward integration in the late eighties? The record shows that, by and large, Moscow showed little interest in halting the process of gradual disintegration and that various pronouncements from the Kremlin made it clear that Gorbachev was much too preoccupied with maintaining the momentum of perestroika at home to bother about interfering into the internal affairs of his East European allies. His main worry was to preserve political stability in the region, almost at any price. Otherwise it would be hard to explain seeming Soviet indifference toward revolutionary changes in Hungary and Poland, which included an official denial of the Leninist concept of the leading role of the party, the rebirth of a multiparty system, legitimization of political opposition, abolition of nomenklatura, free elections to an upper chamber of parliament, and others.

At the same time, however, the Soviet leadership was hardly indifferent with respect to a rapidly deteriorating economic situation in some of the CMEA Six. Possibly because of the absence of correct and reliable information about the real state of affairs in Eastern Europe, it took Moscow some time to realize the depth of the crisis but once its extent became known, the Kremlin became fully aware of the danger of a spillover from the economic to the political arena within the alliance, to be followed by a comparable spillover from Eastern Europe to the Soviet Union, putting an effective end not only to perestroika but also to Gorbachev's other goals of glasnost', novoe myshlenie and demokratizatsia.

It was obvious that the Soviet Union simply had no free resources that could be utilized to rescue the East Europeans. In desperation, Moscow went as far as to embrace the idea of a new "Marshall Plan," that had been toyed with by some West European countries/as West Germany and Italy. It justified
this major policy reversal with reference to the adage of the end justifying the means: the East-West detente must be preserved at all cost, including Western economic penetration of the Soviet periphery.

In those circumstances, what was the Soviet attitude toward CMEA? An authoritative Soviet view articulated in the summer of 1988 stated that, as currently structured, CMEA was a relic of Stalinism and because of that it had failed dismally as an engine of integration. Every standard Western criticism of CMEA's policies and every cliché in the book were used to castigate the organization's record and performance. Although Moscow did not suggest the possibility of CMEA's dissolution, the Soviet leaders did not offer much hope of a rapid and significant improvement in the chances of a meaningful integration.

Thus, on the eve of CMEA's fortieth birthday, the future of both the organization and of integration itself, remained largely unclear. In contrast to the past when purely systemic factors were mostly responsible for the lack of progress, in the most recent period it was mostly the political factors that accounted for the fact that in 1989 CMEA became largely irrelevant. A good testimony to that was the fact that in the early part of the eighties the political conditions were highly favorable for closer integration — and yet neither the USSR nor the CMEA Six had enough of a political will to enhance economic cooperation in the region.

CMEA's fortieth anniversary in January 1989 provided a convenient point for taking stock of the organization's successes and failures.

Until relatively recently, the official CMEA view had been that although the organization had not fulfilled many of its basic objectives, the overall outcome
was clearly positive. It was only in the last few years that a rather striking reappraisal of CMEA had taken place in both the Soviet Union and Eastern Europe, and the official evaluations appeared to be increasingly negative.\(^{12}\)

Insofar as the Western analytical approaches were concerned, the most rewarding one focused on the "integrative potential" of CMEA -- forces and mechanisms that were generated by the formation of the new organization and which motivated and influenced political decision makers to move closer to integration. The elite response to these pressures depended on the strength of these forces -- some created by the establishment of new institutions and some resulting from conscious policy decisions -- and the strength of several conditions that, taken as a whole, constituted the integrative potential of a region.\(^{13}\)

From a perspective of 40 years it is clear that the integrative potential of CMEA remained low throughout its existence. This was not only true for the persistent weakness of the various process mechanisms but even more so for the perennial weakness of both the structural and perceptual conditions which, when aggregated, offered little hope for a dynamic integration process.

The attitude of the Soviet Union toward the whole notion of CMEA integration appeared often ambivalent. It may be assumed that the ultimate determinant of the Kremlin's behavior toward CMEA was a broadly defined Soviet national interest which, of course, has undergone some changes over time. In simple terms, as long as CMEA performed a useful function for the USSR as an instrument of control, as a tool for mobilizing East European resources and
channeling them to the Soviet Union, as a Soviet surrogate supplier to the Third World, or as a potential asset or trump card in East-West negotiations -- it has enjoyed Soviet support. Recently, however, there was apparently a growing belief in the Kremlin that Eastern Europe and CMEA were becoming rapidly diminishing assets and that in some ways they had already become a burden.

If this is true, the question may be raised whether, at the beginning of the nineties, the Soviet Union still needs CMEA and whether Moscow will be willing to maintain it indefinitely? The answer to this question is difficult. On the one hand, the last four years of perestroika indicate that Gorbachev is perfectly willing to dismantle some of the most deeply rooted and hallowed Soviet institutions, which means that presumably he would not hesitate to dissolve CMEA if and when he concluded that it has become a clear economic burden for the USSR. On the other hand, apart from the inherent Soviet conservatism, there is always a possibility of the CMEA members taking their cue from the success of the EEC, picking CMEA by its own bootstraps and creating a reasonably rational and efficient integrative mechanism, offering benefits to both the Soviet Union and the smaller East European states.

At the time of this writing (May 1990), the prospects of a major turnaround in CMEA's fortunes do not appear bright. To be sure, the announced further integration of Western Europe in 1992 provides an element of external cogency if not urgency, which would seem strongly to favor closer integration of Eastern Europe. At the same time, however, the decline in Soviet hegemony over the region, accompanied by rapid and radical changes in all CMEA countries, strongly militate against closer cooperation. Thus, it may be concluded that
the CMEA fabric has been torn irreparably and while the formal institution itself may be maintained in the foreseeable future and lip service may well continue to be paid to the benefits of socialist integration, CMEA itself is likely to remain an empty shell and ultimately fade out of existence.
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NOTES


12. See, for example, an interview with Vyacheslav Sychev, Secretary of CMEA, and Yuri Shiryayev of the International Institute of Economic Problems of the World Socialist System, on the occasion of the 40th anniversary of CMEA. Literaturnaya Gazeta (Moscow), 8 February 1989, as shown in FBIS-SOV-89-029, 14 February 1989.

14. At its 45th Session in Sofia (January 9-10, 1990), the first meeting of CMEA member-states held after the 1989 upheaval in the region, the CMEA Council decided to create a special commission that would study the future of the organization and report to the Council as early as March 1990. Vlad Sobell, "In Search of a New CMEA," Radio Free Europe, *Report on Eastern Europe*, vol. 1, no. 6, February 9, 1990, pp. 39-42. As of the time of this writing (May 1990) no such report has been published.