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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
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INTELLIGENCE MEMORANDUM

# Costs to Czechoslovakia, and to the Warsaw Pact Powers, of Actions Taken Against the Czechoslovak Economy

## Summary


The costs of the Warsaw Pact action against the Czechoslovak economy* are estimated as follows:

a. In Czechoslovakia the main physical damage was to roads and transport facilities from heavy military traffic, which will cost some $300 million to repair. Czechoslovakia has lost about 30,000 refugees. Economic activity was interrupted for only a few days (21-24 August) and had returned almost to normal in two weeks, but production losses amounted to several hundred million dollars. Export losses to Western countries were $27 million in August, and there were additional hard currency losses from the halting of tourism. The output of the Czech economy in the third quarter of 1968 may be slightly below the 1967 level, but the fourth quarter and the year as a whole will still show some economic growth.

b. To the USSR there will be some increase in the burden of economic relations with Czechoslovakia above that planned for 1969. Terms of trade are, on the whole, unfavorable to the USSR. The Soviets probably will refuse to pay the reparations for war damages which have been asked for by the Czechs. The USSR may well offer ruble credits, however, and a small hard currency loan is possible to ease Czech balance-of-payments difficulties. There will be


* *Apart from the cost of mobilizing and moving the forces involved, which is estimated in, "Military Costs of the Warsaw Pact Invasion of Czechoslovakia."*



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some indirect losses to the USSR as a result of the unwillingness of key Western powers -- particularly the United States -- to furnish the USSR with advanced Western technology, such as the third-generation computer package which was under negotiation at the time of the invasion.

c. The costs to the economies of the Warsaw Pact powers are small. There have been losses from the disorganization of international transport and trade and a dropoff in tourism. The closing of the Czech border held up movements not only to that country but also the normal north-south transit through Czechoslovakia. Transportation bottlenecks were more serious than usual, and losses undoubtedly were larger than usual from spoilage of perishable goods and interruptions in production. These losses may be detectable in the monthly statistics of these countries but will have no perceptible effect on their economic growth for the year. The crisis will involve some loss of hard currency from tourism this fall and perhaps next year as well. The effect on overall trade with the West -- except that of Czechoslovakia -- is likely to be slight.

In summary, Czechoslovakia has been hurt far less in every respect than was Hungary in 1956. The fighting in Hungary in October and November 1956 caused property losses that were estimated as high as $1 billion. Hungary lost 185,000 of its citizens who fled the country. Industry and transport were still operating far below capacity in the late winter of 1957, three months after the revolt had been crushed. Total output dropped in the last quarter of 1956 to less than one-half the 1955 level, and output for the whole year was down 9 percent. Thus Czechoslovakia does not need and probably will not get large-scale aid from the USSR and other Warsaw Pact countries. These countries have resumed deliveries to Czechoslovakia and doubtless will tolerate some lags in Czech shipments.

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Initial Cost to Czechoslovakia

Czechoslovakia has suffered substantial losses from the Soviet armed intervention in August. Transportation was hard hit. Heavy military traffic did extensive damage to road surfaces and other transport facilities, estimated to be about $300 million -- the main property damage done to the economy. During the first four days after Soviet forces entered Czechoslovakia (21-24 August), municipal traffic almost stopped, and rail transport ground to a halt as a result of the closing of border crossing points to commercial traffic. All other aspects of economic life were affected in turn -- the supply of fresh produce, meat and dairy products, and bread to the population; shipments of essential raw materials; deliveries on export contracts; and personal movement, including travel to and from work. Between 26 and 28 August, transport services recovered rapidly. The reinstitution of almost normal transport services led to rapid improvements throughout the economy. By then, production losses had mounted to several hundred million dollars. An official estimate put the loss in output during the first week of the occupation at $250 million. It is not clear whether the figure simply is the sum of losses reported by enterprises, or whether double counting has been netted out -- probably the former. In any case, losses in the second week were much smaller. The loss in output during the first two weeks represented not more than 1½ percent of the national product for one year (estimated at $25 billion for 1967). As a result of these losses and continued supply difficulties, output in the third quarter as a whole will probably drop below the 1967 level. In addition, there were losses in exports during August amounting ~~to~~ $58 million, of which $27 million were losses in exports to Western countries. In time, however, these losses will be recovered. But the foreign exchange lost as a result of the shutdown of tourism and the temporary stopping of rail traffic across the country, as well as terminated civil air flights, cannot be recovered and added a few million dollars more damage to the Czech economy.

Prospects for Czechoslovakia

Full recovery will take some time. One Czech estimate holds that future losses would be several times the initial loss. This estimate seems unduly pessimistic. On the assumption that the political situation is stabilized, output in the fourth quarter should recover to a level at or above that of 1967. On 31 August the Czechs estimated that industry already was operating at about 93 percent of the "normal rate," and that sales were at 91 percent of normal, reflecting mainly lags in imports and other supplies, which may not be entirely overcome even now. During the "August events" the flow of Soviet oil through the "Friendship" pipeline apparently continued without interruption. Rail shipments from the USSR were held up, however, as from other sources, including supplies of iron ore, nonferrous metals, cotton and wool, hides and skins, and coking coal. Since 31 August, Soviet deliveries in all probability have returned to normal. In/ecent negotiations the Soviet government has confirmed and extended previous agreements for increasing deliveries in 1969 -- including 1.6 million tons of grain (an increase of 300,000 tons over 1968) and 9.3 million tons of crude oil (an increase of 500,000 tons) -- as well as supplying large quantities of iron ore pellets and natural gas. Deliveries from other Eastern European countries should soon return to normal, if they have not already done so. Shipments from the West, particularly overseas countries, could be held up for some time, pending the clarification of existing agreements.

To the extent that supplies permit, the Czech regime is determined to make up arrears in production. "Dubcek shifts" are being worked on -- Saturdays and Sundays for this purpose. The workers seem to be cooperating, and the extra hours will doubtless help. Output will very likely rise soon to the levels of last spring and early summer. Waste, however, is likely to be greater than usual as a result of general continued confusion on policies and plans, especially with reference to economic reform and trade with the West.

There are strong indications that the Czech economy will be linked even more closely than at present with the USSR and the other Warsaw Pact countries. These indications include the report that Czechoslovakia's trade with the USSR will increase by 10 percent in 1969, as against a projected increase of 4 percent mentioned before the Soviet takeover. One of the main Soviet objections to the ideas of Professor Ota Sik, who recently sent his resignation (from Yugoslavia) as Deputy Premier, was his insistence on the need to put the economy under the "discipline of the market." As Sik had been explaining to the people, growth had been maintained mainly through expanding the output of obsolete goods, most of which were then used -- directly through investment and indirectly through trade with the Communist world -- to make possible the output of more obsolete goods, of which the same uses must be made. In the best of circumstances, it would have been hard to excape from this trap. Under a policy of closer collaboration with the USSR and the other CEMA countries, escape is out of the question.

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

At the same time, the USSR has a strong interest in making the Czech economy work smoothly, as shown by the agreement to increase trade with Czechoslovakia substantially in 1969. Additional aid does not appear necessary to bring about rapid recovery. The Soviet government may well reward a submissive regime with some additional support, but almost certainly not with the large loan of hard currency ($500 million, more or less) requested earlier this year.

## Cost to the USSR

The costs to the USSR of intervening in Czechoslovakia (apart from those connected with mobilizing and moving troops) are small. Soviet deliveries to Czechoslovakia in the near future are not likely to be greater and might be somewhat less than those provided in the annual trade agreement, depending on the ability of the Czech economy to absorb them. The Czechs, for their part, will probably come close to making up arrears in deliveries to the USSR. This task has been given a high priority. Czech-Soviet trade in 1969, as indicated, will be somewhat greater than planned earlier, and this will mean some loss to the USSR because of its unfavorable terms of trade with Czechoslovakia.

Czechoslovakia has asked the Soviet government to pay reparations for the property losses caused by Soviet troops. In addition to the damage to roads and to transportation equipment, the troops destroyed or damaged communications equipment and requisitioned some supplies. It seems likely that the Soviet government will refuse to accept liability for this damage, running well over $300 million, on the ground that it was all the fault of the Czechs themselves.

At some point, however, the USSR may offer long-term credits to Czechoslovakia, as a gesture of socialist support. But the Czechs do not need additional drawing rights on clearing account with the USSR, which already owes Czechoslovakia more than $100 million on current account (apart from a large indebtedness on capital account arising out of Czech deliveries in lieu of investment in the Soviet oil industry). The Czechs undoubtedly could draw up a bill of Soviet goods that they would be glad to buy with their credit balance, and perhaps the Soviet government will accede to some such request.

In addition, Czechoslovakia will doubtless renew its request for a hard currency loan, partly to deal with the balance-of-payments difficulties and partly to finance machinery imports from the West. ~~The~~ USSR, however, is not in a positio to offer a large hard currency loan -- certainly nothing on the order of $500 million, which had been talked about earlier.

Finally, the USSR stands to lose something in its economic relations with the West as a result of hostile public reaction. Trade relations probably will be little affected. But negotiations which were under way for purchasing advanced Western equipment could be affected, particularly as a result of reluctance on the part of the United States and the

United Kingdom to export third-generation computer technology to the USSR at this time.

Costs to Other Eastern European Countries

In addition to expenses related directly to military involvement, the Eastern European countries incurred some indirect costs -- and inconvenience -- following the disruption of traffic through Czechoslovakia. Some of the north-south trade that normally transits Czechoslovakia had to be re-routed through West Germany and Austria and had to be paid for in hard currency. In 1967, this north-south trade accounted for less than 14 percent of Polish and East German foreign trade, and for Hungary and Bulgaria, 18 and 12 percent of their trade, respectively. Nonrecoverable damage could have resulted where perishable commodities were shipped and could not have been re-routed on short notice. Although East Germany exports through Czechoslovakia little in the way of perishable goods, Poland, Hungary, and Bulgaria ship substantial amounts. For Poland, most of this trade is in coal and other nonperishables. On the other hand, a good share of Bulgaria's and Hungary's exports to northern countries are highly perishable. In all, the losses may run to several million dollars.

Poland, Hungary, and Bulgaria may also lose some of their profitable Western tourism. Eastern Europe, however, affords the Western Europeans an inexpensive vacation, and they will probably be back in force next year. The losses represent some fraction of this year's summer and fall business. East German tourism is dependent primarily on West Germans visiting with families and visitors to trade fairs; there is little likelihood that these will decline.

There are no prospects for economic sanctions against Eastern European countries by major Western countries engaged in East-West trade. The fact of armed intervention in Czechoslovakia has caused bearish talk in East-West trade circles, and it was reported that during the week of the invasion business contacts were curtailed somewhat. But the mood is not optimistic. The main worry seems to be that further liberalization of COCOM restrictions may be delayed.

## Hungary in 1956 Compared with Czechoslovakia in 1968

Soviet intervention in Czechoslovakia immediately suggests comparison with the Soviet intervention in Hungary in 1956. In each case, the Soviet leadership, after wavering, forcibly restrained an Eastern European country from seeking independence in foreign affairs and political freedom at home. The two cases are nevertheless quite different. In Hungary, Soviet troops put down a popular revolt, with major disruptions to civil life. In Czechoslovakia, there has been practically no outright resistance to the Soviet troops that entered the country on 20 August, and civil order has not broken down.

The consequences of Soviet intervention differ accordingly. Soviet intervention in Hungary resulted in more than 20,000 casualties, a good deal of damage to property, the emigration of many skilled people, and the partial paralysis of the economy for several months. Property damage did little to reduce output, although it included damage to mines and railroad rolling stock. The loss of workers was more serious. Some 185,000 people (or 2 percent of the population) left Hungary from October 1956 through March 1957. They included a high proportion of skilled industrial workers, who could ill be spared, even though they were replaced from the farms by mid-1957. Moreover, many workers that did not emigrate, including large numbers of coal miners, abandoned their jobs in protest against Soviet intervention. Many strikes occurred, and labor discipline was generally poor. The peasants began redistributing the land of collective farms to individuals.

The lack of fuel and power resulting from sharp declines in production, the loss of skilled workers, the hostility of the labor force, and interruptions to transport and foreign trade dropped industrial output as a whole to less than one-half of capacity in the last quarter of 1956. Exports for the quarter dropped to one-seventh, and imports almost to one-fourth of the expected amounts. An official estimate put total losses as of the end of 1956 at about one-fourth of the national product. The loss was thus roughly $1.5 billion, of which about two-thirds represented damage to property and about one-third represented forgone production.

Economic recovery came during 1957, but slowly and only with substantial help from the USSR and other Communist countries. Output during the first nine months of 1957 was below the 1956 level, although there was steady improvement. The extension of some $300 million in commodity credits by the USSR and Eastern European countries permitted Hungary in 1957 to run an import surplus with the Communist world amounting to some $200 million in commodity trade, together with the usual deficit in transport services. Hungary also received hard currency loans of $50 million from the USSR and $25 million from Communist China.

The contrast with the present economic situation and prospects of Czechoslovakia is striking. Economic activity in Czechoslovakia was interrupted for only a few days by the entry of Soviet troops, the main property loss was damage to road surfaces, and workers soon returned to their jobs, even putting in extra shifts to try to make up arrears in production.