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10 January 1985

CZECHOSLOVAKIA : ANNUAL REVIEW FOR 1984

*Her Majesty's Ambassador at Prague to the
Secretary of State for Foreign and Commonwealth Affairs*

SUMMARY

No internal political change, and the ordinary citizen kept his head down, but profound resentments continue (paragraphs 1-2).

2. The economy superficially doing quite well, but modernisation greatly needed. A market worth British firms' attention (paragraphs 2-7).

3. Continuing deadlock in Church-State relations. The Chartists relatively inactive (paragraphs 8-9).

4. Majority in the régime welcomed prospect of improved East/West relations in 1985. Despite orchestrated propaganda about 'revanchism' continuing cultivation of relations with FRG. But loyalty to Moscow remains top priority. A little movement with China (paragraphs 10-14).

5. A mixed year for relations with Britain, but up-beat prospects in 1985 (paragraphs 15-16).

6. Czechoslovakia cannot always remain as stagnant as it now is. We should continue to treat the country with a view to the future (paragraphs 17-18).

*Prague
10 January 1985*

Sir

Most members of the régime seem reasonably satisfied with 1984 – after all, they stayed in place with their power and their privileges intact – but it becomes increasingly questionable how long they can continue to enjoy the luxury of failing to tackle the underlying problems of a complex and in many ways sophisticated country.

Internal Affairs

2. There were no changes in personalities or internal policies. The uneasy balance between fundamentalist and evolutionary elements in the Communist leadership hardly makes for fresh

approaches. An immobile political situation in Moscow affects the climate in Prague. The régime are conscious that Chernenko's durability must be limited, but are unable to forecast the succession or the policies that will come with it. They continue to manifest their feeling of insecurity vis-a-vis their own people. The elaborate celebrations of the 1944 Slovak uprising in August unintentionally underlined the uneasy relationship between Czechs and Slovaks. The deep-rooted contradictions and tensions within the country, which were added to by the declared intention a year ago to station Soviet nuclear missiles "of extended operational capability", continue to make it unwise for anyone to dismiss Czechoslovakia as a subdued and submissive country where nothing will ever happen. Meanwhile the ordinary man keeps his head down, avoids exertion for his state employers, and gets on with the business of enjoying with his own family such good things of life as he can. These are not insubstantial, even if the price of beer is no longer so highly subsidised. He goes on listening to western radio and, when this is possible, watching Austrian and West German TV.

The Economy

3. After the recession years of 1981-83 the 1984 performance indicators are superficially satisfactory. The harvest was relatively good. Since the autumn Czechoslovak ministers publicly exude an air of confidence. GNP (their calculation) is up by 3.2% over 1983. Projections for the next five year plan are likewise relatively optimistic. Total hard currency debt is down to \$1.9 billion and the City of London rightly regard Czechoslovakia, with its conservative approach to foreign borrowing, as a sound medium term risk.
4. The Moscow CMEA Summit in June passed without adopting decisions or policies which were seriously to the Czechoslovaks' disadvantage. On the other hand it produced no positive benefits for them, such as more effective integration of production among the smaller members or a move towards a multilateral payments system in which debit balances with the Soviet Union can be financed by credit balances with other members. The question of raw material prices, especially for Soviet crude oil, which largely determines Czechoslovak terms of trade, remains an all-important loose end for subsequent negotiation.
5. Fundamental problems are still unsolved: productivity, profitability and technical innovation. Competitiveness of products as to quality and price continues to deteriorate, and that in a country which depends on international trade for its living. Relatively little has been achieved towards improving incentives. The ratio of stocks to annual industrial production has now passed 90%. The electronics industry, despite the high priority accorded to it, has made only limited progress. Management in many undertakings stays in its rut, and the indigestible verbiage of the 1984 revision of the "Set of Measures" for improving it is not the stuff of which industrial revolutions are made. Although rather more hard currency is being spent on importing western technology and equipment it does not offset the increasing age and obsolescence of industrial machinery. Many sensible Czechs and Slovaks in business and industry think that the Party have got the balance between debt control and investment wrong, but are largely ignored. There is a growing consciousness about environmental requirements, and brave words are spoken by politicians on the subject, but actual expenditures do not match the requirements or the promises.
6. The Czechoslovak economy is a strangely robust machine, perhaps partly because it is so low-tuned. Maybe the climate has become a little more customer-minded, but there is still hardly a word about giving some priority of attention to the wishes of the private domestic consumer, on which the dynamism of any modern economy ultimately rests. Thus, while there will probably be no crisis, barring accidents, in the next few years, it is difficult to see how Czechoslovakia can avoid falling further behind the industrialised free-market countries as the third technological revolution progressively takes effect.

7. Meanwhile, there will continue to be prospects for reasonable growth of sales by British firms, mostly of a rather specialised nature. The increasing volume of pent-up potential demand waiting one day to be released means that Czechoslovakia remains a market worth staying in and working at.

Church Affairs : The Dissidents

8. Evidence increases of the return of young people to religion. This worries the Communist leaders who are, however, inhibited from intensifying pressure on the Roman Catholic Church by the potential damage to their international image. 1985 will see the 1100th anniversary celebration of the missionary Saint Methodius which the Pope, despite an invitation from Cardinal Tomášek (now a sprightly 85), will not attend. His conditional acceptance put the régime on the spot. Eventually President Husák told the Cardinal that "conditions would not be right" in 1985. Negotiations between the State and the Vatican will continue, but offer little real prospect of a settlement of the main outstanding issues: episcopal vacancies; admission to seminaries; religious instruction of children; the 'peace' organisation of the clergy.

9. The Chartists were relatively inactive during the year, partly because of internal dissensions. They did, however, join with GDR counterparts in denouncing the local stationing of nuclear missiles. There were few trials, but individual Chartists remain under various degrees of police pressure or harassment. The régime were embarrassed by the award of a Nobel prize to an elderly Czech popular poet, Seifert, who, while not all his work is banned, is hardly their favourite writer.

International Relations

10. The régime and the media which a group within it controls continue to echo the current Moscow line on all issues. Since the middle of 1984 there has been a wave of denunciation of the recrudescence of "revanchism" in West Germany, but the really senior people stop short of personally attacking Chancellor Kohl, and behind the smoke-screen the Czechoslovaks go on with a substantive bilateral programme in both directions, including a visit by Genscher in December, all of which promotes their interests vis-à-vis the Federal Republic. They expect a visit from Chancellor Kohl in 1985.

11. [REDACTED]

[REDACTED] Even the few but noisy neo-Stalinists concede that better East/West relations are to their country's advantage.

12. Some symptoms of Czechoslovak relief were detectable in the Foreign Minister's biennial policy review speech in the Federal Assembly in November, which was more measured in its denunciations of the USA than usual, and carefully left open all the options as regards relations with the Federal Republic of Germany. The Czechoslovaks were uncomfortable for the prolonged period during 1984 when socialist neighbours, especially the GDR, seemed to be enjoying greater freedom for manoeuvre on the western front. However, I detected no glee when the Russians called Honecker to order. Given the Czechoslovak fondness for maintaining that the smaller countries on both sides have their contribution to make to restoring détente they will not welcome it if the Russians and the Americans keep all the action to themselves but they will, as always, be loyal as required. If the Kremlin decides for its own reasons that Kohl should not come to Prague in 1985, the Czechoslovak régime will find some excuse for putting him off and will swallow their disappointment.

13. The Czechoslovaks maintain a low profile on the affair of the GDR fugitives in the FRG Embassy in Prague in order to minimise damage to their relations with either of the German states. Relations with Austria, often up and down are at rock bottom after Czechoslovak frontier guards in October violated Austrian territory to kill a fugitive. The incident is illustrative of how far a totalitarian state's foreign relations are disproportionately in hock to its own policemen. Towards their fellow non-Soviet Warsaw Pact neighbours the regime maintains an attitude which is correct as between comrades but is hardly characterised by real warmth.

14. Relations with China are improving, in parallel with the mild improvement in the Sino/Soviet climate (something welcomed by the Czechoslovaks for their own reasons, not least business prospects). With the Third World the mixture continues much as before: a somewhat unorchestrated combination of promoting socialist ideology and hard commercial-economic interests. Libya enjoys particular attention, even though the Czechoslovaks basically distrust Gaddafi. In Angola Unita were finally persuaded to release the remaining Czechoslovak detainees, but the prolonged episode hardly serves to make Africa good news to the man in the street.

Relations with Britain

15. These went through a bad patch in the early summer when the Czechoslovak authorities over-reacted to the expulsion of two members of their Embassy staff in London for illegal intelligence activities or, more precisely perhaps, to the later press leakage about the expulsions, and required two of our Prague Embassy staff to leave. Much was done to restore relations at the annual political consultations in London in October, which the Czechoslovak side regarded as constructive. British exports are up by some 13%, and the President of the CBI and the Chairman of the East European Trade Council paid successful visits. The highlight of the year was the visit of the Royal Shakespeare Company at Easter, sponsored by the British Council in a tour to mark the Council's fiftieth anniversary year. Their outstanding performance made a deep impression on Czechoslovaks at all levels and will long be remembered.

16. The prospects for bilateral relations in 1985 - and beyond - look promising, provided further expulsions do not rock the boat. They will be given major impetus by your visit, Sir, in April to which the Czechoslovaks greatly look forward. There will be immediate follow-up in May with the planned visit of the Minister for Trade and participation by the Royal Philharmonic Orchestra in the Prague Spring Festival, and at least two inward ministerial visits are on the stocks.

[REDACTED]

[REDACTED]

[REDACTED]

The Future

17. There are two main schools of thought about Czechoslovak man. One has it that, for all his grumbling about the Russians and their sycophants, he is in fact content with his modest, undemanding and not totally uncomfortable lot and that the longer this goes on the less ambitious he is going to be in the future. The second has it that the docility is a protective shell concealing deep dissatisfaction, resentment and frustrated national pride, which sooner or later will make themselves felt again. I subscribe to the latter view. I shall have more space for analysis and prognosis, and the implications for policy, in my valedictory report next month. Suffice it for the moment to say that the facts of power being what they are inside a Soviet-dominated country any change is going to have to be led from inside the Communist Party. But Czechoslovakia badly needs change. There are different sorts of communist, and it could take only the death of a key member of the present ruling oligarchy, or a shift in emphasis in Soviet domestic policy, for things to start moving.

[REDACTED]

[REDACTED]

19. Copies of this despatch go to other Eastern European posts and to HM Representatives at Bonn, Vienna, the Holy See, Washington and NATO.

I am, Sir,

Yours faithfully,

J R RICH

Internal Developments

2. Czechoslovakia finished the year with the balance of power in the leadership unchanged. Husak's re-election in May was no surprise. There have been no major developments among the ruling elite, whose ranks have been altered only by the appointment of a new Minister of Defence (whose predecessor had died) and the replacement of the Minister of Finance (almost certainly to protect Czechoslovak society from the risk of a public display of his drinking and marital difficulties).

3. 1985 provided no answer to the question who will eventually succeed Husak as General Secretary and President, Strougal as Prime Minister and Bilak as chief ideologist. Leading contenders remain Jakes (aged 63) and Fojtik (aged 57) for the General Secretaryship and the ideological post respectively, with the position of Prime Minister perhaps going to Jakes (if he does not replace Husak) or to a senior technocrat in the present Government. But this can be no more than guesswork based on the assumption that Czechoslovakia will continue to prefer continuity to significant change. Much may depend on the order and timing of vacancies. However, on the evidence of 1985, a few tentative predictions can be made. First, there is no Gorbachev, Kadar or even Gierek already on stage and none seems likely to emerge from the wings. Second, the human material available makes it likely that the outlook and policies of any new leadership will be much as hitherto, in the absence of unmistakable change in the Soviet Union.

4. What does this continuity tell us about Czechoslovakia? First, importance is attached to stability: no dangerous experiments, and if possible no experiments at all. Second, there is deadlock at the policy formation level between the cautious pragmatists and the ideologues: a Strougal speech on the need for something to be done about the economy is accompanied by a reminder from the ideological watchdogs that Lenin prescribed the primacy of the political sphere over the economic. The two approaches represent in part a jockeying for position when leadership changes are made. But it is also one of the most persistent legacies of 1968 that no-one can gain general endorsement for the view that reform and change can be undertaken without risking loss of control. Any measures adopted must be evolutionary, growing out of the existing system, and their limits must be ideologically defined in advance. Third, the political balance of power in Party and Government is reinforced by the need to maintain the national balance between Czechs and Slovaks: a change in one field risks causing problems in the other. Fourth, inertia at the policy level means that the system cannot generate any real movement or enthusiasm below the surface flow of exhortation to greater initiative and discipline.

The Czechoslovak Economy

5. Although it is acknowledged that the Czechoslovak economy needs structural change, modernisation and better management, it remained an axiom in 1985 that this can be achieved by making the present system work more smoothly and by applying the fruits of science and technology. The gap in Czechoslovakia between the sense of what needs to be done and the actual measures taken remains dismayingly wide. The leaders have continued to shun Hungarian-style reforms relying on the market mechanism, having sensed that all is not well south of the border. Incentives to management and labour have stayed an under-developed region. What they have distilled from Soviet pronouncements to date will not have suggested to them in 1985 that Czechoslovak policy is out of line with thinking in Moscow. On the contrary, the adulatory references to the value for Czechoslovakia of Soviet experience indicate that the Czechoslovak authorities consider they are practising what Gorbachev appears to be preaching.

6. As a result some important economic objectives are likely to be crowded out. The system needs to generate resources to restructure and modernise. Czechoslovakia is required to deliver more high quality products to the Soviet Union. The competitiveness of Czechoslovak exports to world markets must be increased. To achieve these objectives it must acquire new technology from abroad.

But Czechoslovakia is reluctant to borrow, concerned (more than it acknowledges) about the demands of the Soviet Union, and sceptical about the ability of Czechoslovak organisations to sell their products in the West. No increase in exports to non-socialist countries is foreseen in 1986. As long as nearly 80% of Czechoslovakia's foreign trade is with other socialist countries, and with 40% of it with the Soviet Union, the greater degree of specialisation of production which Czechoslovakia hopes to achieve through the CMEA will not solve the problems of productivity and marketing facing the country. It is indicative of the lack of strategic grasp on the future of the economy that the Prime Minister's speech at the November Economic Plenum of the Central Committee, in which he looked forward to the 8th Five Year Plan and long term prospects up to 1990, referred repeatedly to unspecified measures which would be "progressively" taken and to questions which remain "open" to be tackled later. One leading Czechoslovak academic economist told Mr Derek Thomas and myself that no serious reform of the economic mechanism could be expected until the 9th Five Year Plan which begins in 1990. One must suspect that he is right.

Human Rights

7. 1985 produced little evidence to support the view that industrial and economic factors will force Czechoslovakia to introduce reforms in industry and management which will in turn be paralleled by liberalisation in society as a whole. There remains a stark contrast between the relatively comfortable circumstances of those who do not challenge the prevailing orthodoxy and the intermittent harassment of outspoken critics of the régime. Absolute numbers of the latter group are small, and Charter 77 remains effectively neutralised as a factor in the internal situation.

[REDACTED]

[REDACTED]. As the year ended, there were reports that at last some progress may be near over filling some of the long-vacant Catholic bishoprics.

International Relations

8. The discrepancy between potential and performance extends to Czechoslovak foreign policy. In 1985 Czechoslovakia did nothing to damage its reputation as a faithful ally of the Soviet Union. Government and Party worked up anti-Western rhetoric at the time of the celebrations in May of the 40th anniversary of the ending of the war. The Moscow line on SDI was put across prior to the Geneva Summit. The muted but real welcome given to the outcome of the Geneva discussions has been similar to that in Moscow. Probably no Foreign Minister from the West has ever risen from a discussion with his Czechoslovak opposite number believing that here was a Government wanting to paddle its own canoe rather than float along in the wake of the Soviet Union. A reduction in superpower force and weapon levels in central Europe would benefit Czechoslovakia, but the political price of pressing a small country case on the Soviet Union is not one that the Czechoslovaks are willing to pay. On the other hand they have been adept in telling Western listeners that the European powers have a common interest in seeing a reduction in armaments. Their most recent proposal, jointly with the DDR, for a zone free of chemical weapons in Czechoslovakia, the FRG and the DDR fits into this pattern. Tensions with Austria eased after the Czechoslovaks indicated they would restrain their border guards.

9. In 1985 the Czechoslovaks have argued in bilateral discussions with ourselves and other Western countries in favour of a better tone in the language of international relations. They have shown a growing confidence that in any public slanging match about human rights they will be able to give as good as they get. It is encouraging that the Czechoslovak leaders are prepared to discuss and debate these questions with us, as was shown during your visit here in April and again when Mr Derek Thomas was here at the beginning of December. This has also been borne out by Bilak's visit to the FRG in March and in discussions between the Czechoslovak Foreign Minister and his

