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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

ECONOMIC REVIEW OF INDIVIDUAL EASTERN EUROPEAN COUNTRIES: ROMANIA

CURRENT PROBLEMS AND FUTURE PROSPECTS OF
THE ROMANIAN ECONOMY

Note by the Canadian Delegation

Note by the Secretary

Attached is the study prepared by the Canadian Delegation on the current problems and future prospects of the Romanian economy. This document will serve as the basic paper during the second examining session on the Romanian economy, to be held on 20th March, 1969.

2. Delegations are invited to send to the Economics Directorate any comments on this paper or any additional information on the subject which they might wish to make available to the Sub-Committee.

(Signed) L. THIEBAULT

OTAN/NATO,
Brussels, 39

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THE ROMANIAN ECONOMY

OBJECT

This study is an attempt to present and assess the economic, financial and growth factors operating in Romania.

SUMMARY AND CONCLUSIONS

1. Romania's population of 19.3 million supplies a labour force of 11.5 million, 60% of whom are still employed in agriculture. The standard of living found in Romania is one of the lowest in East Europe and is less than half that found in the advanced countries of Western Europe. The low standard of living is a function both of the low stage of development of the economy and of the government programme of rapid industrialisation whereby a minimum of resources are allocated to the production of consumer goods so that a maximum of resources can be channeled into capital formation.

2. Climate and soils in Romania are suited to the production of almost every crop common to East Europe, but because of the low priority assigned to agriculture relative to industry in the country's development plans, much of Romanian agricultural production potential goes unrealised. The agricultural sector accounts for about 30% of national income and its exportable surplus is a major contributor to the country's hard currency earnings.

3. Severe drought conditions in 1968 brought Romanian agricultural output back to the level of 1965 after the high yields achieved in 1966 and 1967. The Bill on Agricultural Taxation, expected to be implemented in 1969, will introduce a progressive income tax in place of the present property levy. It should act as a major production incentive for co-operative and private farmers. Gross capital investment in agriculture is expected to increase by 9% over the 1968 total but given current equipment investment trends, net investment will decline or become negative. Average output levels in the next few years are expected to increase only marginally above those realised in 1966 and 1967.

4. Romania has achieved one of the highest rates of growth of industrial output in the world. This growth has been achieved partly at the expense of the non-industrial sectors, such as agriculture, and also at the expense of personal consumption, the ratio of capital goods to consumer goods in current industrial production being about two to one. According to official Romanian data, total industrial output has grown at an average rate of 13.2% for the period 1951-67. This growth, however, slowed to 12.6% between 1966 and 1967 and to 11.6% between 1967 and 1968. The plan for 1969 prescribes an increase of 10.8% in industrial output over that of 1968.

5. Romania's industrial development has centered around the development of the chemical and engineering industries, plus the necessary supporting industries of methane gas extraction, steel and power. Although the fastest growing sector during 1965-67, "metal construction and metal products" is not primarily a domestic resource based industry, the next three fastest growing sectors (electric and thermal power, chemical and pulp and paper) are based on the exploitation of domestic natural resources. The plan for 1969 indicates that this pattern of industrial development will not change radically in the near future.

6. Although a small trading nation, heavily committed prior to 1960 to the Communist trading group, and more particularly to the Soviet Union, Romania has achieved a degree of success in its espoused aim of breaking away from a heavy dependence on its communist trading partners. This development, however, has had only a marginal effect upon a continuing dependence on the COMECON countries for raw materials, machinery and services required for its steel, engineering and textile industries and for outlets for its industrial products.

7. In the past decade, the non-communist countries' share of Romania's trade has risen from about one-fifth to almost one-half with a corresponding decline in the share of the communist countries. While Romania's trade with the West grew seven-fold, admittedly from a low base, that with the communist trading group rose only by one-half. Preliminary figures for 1968 indicate a 2% decline in the non-communist share of Romania's total trade. In line with its policy of rapid industrialisation, Romania has imported large amounts of advanced technical equipment and machinery from the West. During the same period, Romanian exports of foodstuffs, timber and timber products and petroleum products increased at a much slower rate. Foreign trade targets for 1966-70 have been slightly exceeded through the midway point of the five year plan. A slow down in the growth of trade over the next few years is estimated.

8. The most important item financing Romania's present trade imbalance is the extension of medium term export credits principally by the Federal Republic of Germany, France, the United Kingdom and Italy. Romania ranks second only to the Soviet Union in terms of the absolute amount of credits outstanding to NATO countries which as of June 1968 stood at a total of \$731 million. Although Romania does have gold deposits, neither annual production nor gold reserves are thought to be large. Romania is faced with the basic problem of securing additional convertible currency to finance its past obligations and future requirements. Romania could employ some mix of the following policies: 1) deplete gold reserves, 2) reallocate investment resources to meet the short run demand for agricultural products, 3) negotiate for a reduction of the West's high import duties on agricultural produce and 4) upgrade the quality of its industrial goods and apply aggressive marketing techniques to sell them abroad.

9. The formation of the International Bank for Economic Co-operation (IBEC) in 1964 has failed to expand multilateral trading among the COMECON members. Since the accounting unit for trade within COMECON, "the transferable ruble" is not convertible into foreign currency, there is nothing to be gained by building up paper credits on a surplus account. Romania's cumulative trade balance for the period 1960-1967 with all the communist countries shows a small deficit of \$6 million. With the East European countries (excluding the Soviet Union) Romania runs a cumulative deficit of \$146 million, whereas trade with the USSR and remaining communist countries has shown cumulative surpluses of \$68 million and \$73 million respectively. Romania is not a large donor or receiver of intra-COMECON short term or investment credits.

10. The Czechoslovak crisis of August 1968 has strengthened the will of Romania to preserve what economic independence it has won during the past from the USSR. Romania has tied the success of her industrialisation programme largely to imports of advanced capital equipment from non-communist countries. Whether the West maintains its share of Romania's trade depends, among other things, upon Romania's success (or failure) to shift from buying to selling in Western markets. Overt economic sanctions against Romania by the COMECON countries are unlikely. Barring a change in Romania's actions, the Soviet Union will probably continue to take a liberal view towards Romanian foreign economic relations.

11. Compared with other East European countries, Romania is a latecomer to economic reform. Continuing high rates of industrial growth in Romania have probably provided less incentive to reform the economic system than in the other slower-growing East European countries. Limited changes in the operation of the economy are not expected to be implemented on any more than an experimental scale until 1970.

12. The creation of "industrial centrals" into which the enterprises of entire regions or whole industries will be combined is the basic feature of Romania's reform programme. These industrial centrals will inherit much of the detailed planning, co-ordination and management from the central planning agencies enabling the latter to concentrate on broad policy questions. Some contact will be permitted between foreign and domestic firms. Prices will remain centrally fixed. If Romania's economic reforms are implemented they can be done so without major disruptions in the economy.

13. The predominant feature of Romania's growth strategy is the drive to rapid industrialisation. By failing to maximise production potential in the agricultural sector, Romania has had to forgo considerable convertible currency earnings. On the other hand, in the longer run Romanian exports of primary products face growing competition, and are subject to price vagaries and inelasticities of demand on the international market.

14. Romania's industrialisation programme is reasonable in that many of the most rapidly growing industries are domestic resource orientated; other import substitution industries will conserve Romania's limited supply of hard currency and allow some economic independence from the Soviet Union. If rapid industrialisation is to bring Romanians a higher standard of living, techniques must be found to expand sales in the high-quality demand markets of Western Europe.

I. POPULATION, LABOUR FORCE, LIVING STANDARDS

15. Romania's population of about 19.3 million persons is largely of Latin descent. While Romania does have Hungarian and German minorities, they are much smaller than those found in Czechoslovakia and Yugoslavia. No evidence of minority unrest has been reported and Romania's President, Nicolas Ceausescu, claims that the Czechoslovak crisis has strengthened the unity of the nation. Romania is attempting to avoid major regional economic imbalances through a deliberate policy of locating new plants in a dispersed pattern throughout the country.

16. Romania has the highest participation rate of the East European countries with its population of 19.3 million persons supplying a labour force of 11.5 million persons - 60% of whom are still employed (in many cases, under-employed) in agriculture. In an effort to satisfy the potential increase in demand for labour created by Romania's rapid industrialisation, the government in 1966 banned abortions and made divorce more difficult to obtain. This legislation probably explains much of the dramatic rise in the birth rate between 1966 and 1967 from 14.3 to 27.4 births per thousand of population respectively.

17. The low standard of living prevailing in Romania is a reflection of the low stage of development of the economy. The present slow rate of improvement in living standard is the price Romanians are paying for their programme of rapid industrialisation. That is, a minimum of resources are allocated to the production of consumer goods in order that a maximum of resources may be channeled into capital formation. Western sources estimate that the per capita GNP of Romania in 1967 stood at \$940*. This compares with an estimated \$1,580 for the USSR and over \$2,000 for the advanced countries of Western Europe. In Eastern Europe, only Yugoslavia and Albania had lower per capita GNP's. The average monthly wage in Romania is reported to be 1,200 lei; the minimum wage having recently been raised from less than 600 to 700 lei per month. Wages in the industrial sector are above the national average at an estimated figure near 2,000 lei per month. Translation into comparable dollar amounts would be misleading because neither the commercial rate of exchange nor the tourist rate of exchange reflect the internal purchasing power of the lei.

* All dollar sums in this study are expressed in US dollars.
The exchange rate used: 6 lei = 1 US dollar.

II. AGRICULTURE

18. Romania is endowed with considerable agricultural resources. Agricultural land accounts for 14.8 million hectares, or 62.5% of the total area of the country. Of this, 66%, or 9.8 million hectares, are arable and most of the arable land is sown to crops (98.6% in 1967).

19. Romania's arable land is primarily given to the production of maize (33% of arable land) and wheat (30% of arable land). The remaining arable land is devoted to fodder crops (14%); technical crops (10%) such as fibre oilseed crops and sugar beets; and potatoes, vegetables, leguminous and seed crops (8%).

20. Romania's vineyards are said to be the world's ninth largest in area. There appears to be no attempt to expand vineyard area nor has the yield per acre been improved. Statistics for the last decade show that grape production has remained about 900,000 tons annually. In contrast Romanian fruit production has more than doubled since 1951. Principal crops are plums and apples with some production of pears, cherries, apricots and nuts.

21. Climate and soils in Romania are suited to the production of virtually every crop common to East Europe. However, largely because of the low priority assigned to agriculture relative to industry in the country's development plans, Romanian agriculture has in the past been neglected and much of the country's agricultural production potential goes unrealised. Nevertheless, by producing sufficient foodstuffs and raw materials during most years both to meet the bulk of domestic requirements and to provide a significant exportable surplus, the sector makes a vital contribution to the national economy. The contribution is particularly important in the case of grains since the main buyers of the 1 to 1.5 million metric tons exported annually are in the hard currency markets of Western Europe and Japan.

22. Of an estimated GNP in 1967 of roughly US \$48 billion, agriculture probably accounted for about 30%. It employed 60% of the country's labour force. 90% of the farm labour force worked in the state sector consisting of some 730 state farms, 270 machine and tractor stations and 4,680 agricultural producer co-operatives.

23. In 1967 crop production accounted for 62% of gross agricultural output, the remainder being animal products. While equivalent figures for 1968 are not available, the proportion probably shifted in favour of animal products because of a drop in crop output as a result of drought and heavier than average animal slaughtering designed to conserve feed.

24. Though certain foodstuffs, and agricultural raw materials for industry are imported, Romania must be considered an agricultural surplus country. In 1967 agricultural products accounted for roughly 28 per cent of exports against less than 3 per cent of imports. Major exports were grains (corn and wheat primarily), fruits, vegetables, and wine. Eggs, animal fats and sugar were shipped in smaller quantities. Basic imports were cotton, rubber, rice, citrus fruits, and hides and skins.

25. While the economy reaps major benefits from its agricultural surplus, the limitations of Romanian agriculture as it is practiced today are considerable. The sector is labour intensive and inefficient by western standards -- in a word "under-developed". It has the lowest concentration of tractor power among COMECON countries, the least consumption of chemical fertilizer per unit of cropland, farms which are on average much too large to be operated efficiently with the present technological base, and a rudimentarily developed irrigation system inadequate to protect against recurring droughts. Consequently, Romanian agriculture is less able than that of other East European countries to cope with periods of unfavourable weather.

26. Government planners for the most part have been seemingly content to accept the export surpluses provided by Romanian agriculture without apparent concern for many of agriculture's pressing requirements. To their credit, deliveries of chemical fertilizers have increased markedly in recent years and, while the use per hectare of cropland is still well below that of most other European countries, these deliveries will undoubtedly lead to increased crop production. Furthermore, there has been a slow but steady increase in the average horsepower per tractor used and work is progressing on supplying agriculture with equipment of increased capacity. In 1969 deliveries of the first self-propelled grain combine harvesters, with capacities of 12 tons per hour (or three times that of the combines presently used) are to begin. Nevertheless, while these improvements may yield some productive increases, their impact may be neutralized somewhat by a downward trend in the annual deliveries of major farm implements. In 1967 deliveries of tractors and tractor-drawn ploughs shrank to their lowest level of the decade. In addition, an increasing proportion of implements delivered are apparently being used to replace worn-out equipment. In other words, net investment in agricultural machinery has been declining at a greater rate than a survey of machinery deliveries could indicate.

27. Severe drought conditions in 1968 brought a decline in Romanian agricultural output. The recently published U.S.D.A. index of Romanian output given below shows a 13 point drop in 1968 and puts the year's output back almost to the level of 1965. This decline adds perspective to the impressive agricultural levels achieved in 1966 and 1967. Because of unfavourable weather, 1968 performance is clearly not indicative of output capacity during an average year. However, given the present level of inputs and technology used in agriculture, it is probably more indicative than that of the previous two years.

U.S.D.A. AGRICULTURAL PRODUCTION
INDEX NUMBERS FOR EAST EUROPE AND THE
SOVIET UNION, CALENDAR YEARS 1964-68
(1957-59 = 100)

<u>Country of Area</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968*</u>
East Europe	115	116	127	130	126
Bulgaria	127	132	155	153	134
Czechoslovakia	110	95	111	114	117
Soviet Occup. Zone of Germany	105	111	110	122	121
Hungary	107	110	117	118	112
Poland	121	123	130	135	140
Romania	112	123	141	139	126
Yugoslavia	117	108	131	126	115
Soviet Union	122	116	138	133	139

* Preliminary

28. As a result of the drought, output levels of grains, sugar beets and fruits dropped below those of 1967. Wheat production was the most serious casualty, declining by roughly one million tons. Losses in total value of crop output were partially offset by gains in potato, vegetable and grape production.

PRODUCTION OF SELECTED CROPS, CALENDAR YEARS 1965-68
(thousand metric tons)

<u>CROPS</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>% change in 1968 from 1967</u>
Total Grain	12,600	13,900	13,500	12,400	-7%
Corn	5,877	8,022	6,860	6,780	-1%
Wheat	5,937	5,065	5,820	4,880	-17%
Rye	125	100	130		
Potatoes	2,195	3,352	3,100	6,656	+18%
Sugar Beets	3,275	4,368	3,830	3,700	-3%
Vegetables	1,655	2,177	2,000	2,300	+15%
Grapes	921	954	910	1,180	+30%
Fruit	1,135	1,390	1,206	1,034	-14%

29. A reduction in forage availability and a decline in fodder output led to heavier than normal slaughtering of livestock in 1968 particularly on the household plots of agricultural co-operative members and on private farms. Because a greater proportion of pigs than sheep or cattle is contained in the socialist sector where feed is more plentiful and because they are basically penned animals and less dependent on forage, pigs were the least affected. Their numbers increased marginally.

LIVESTOCK NUMBERS, CALENDAR YEARS 1965-68*
(thousand head)

	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>1968</u>	<u>Change during 1968</u>
Cattle	4,935	5,198	5,332	5,131	-201
Pigs	5,365	5,400	5,752	5,831	+ 79
Sheep	13,125	14,109	14,380	14,283	- 97

* Counted in January of following year.

30. In terms of overall agricultural policy perhaps the most important event in 1968 was the December 7 introduction into the Grand National Assembly's Examination Bureau of a Draft Bill on Agricultural Taxation. While the actual date for implementation is presently unknown, it is expected that the bill will become law before the end of 1969.

31. In essence, the bill proposes to change the agricultural taxation from one based on an invariable per hectare levy to one based on progressive taxation of the actual income of farmers. It is envisaged that the change, coupled with the proposed income tax schedule, will reduce the amount of tax paid by agricultural co-operatives, and individual farmers. The passage of this bill should provide major production incentive for the groups affected. It would seem to signify increased government awareness of the role of the personal household plots of co-operative farmers and private farms and as such may constitute a significant departure from the past policy of favouring state farms.

32. The immediate outlook for Romanian agriculture is favourable with no spectacular increases in output levels expected. On the basis of the present technological base and current trends in inputs, average output levels in the next few years will probably increase only marginally above those realized in 1966 and 1967.

33. Gross state investment in agriculture in 1969 is planned to increase by 9 per cent over the 1968 total. However, it is not known what proportion of the increase will constitute net investment. Land made available for irrigation is planned to double during the year. Almost 1 million hectares (about 3,850 square miles) of irrigated land is the goal for the end of 1970. Investment is expected to contribute to increasing cereal output in the next two years. However, unless the country is favoured by exceptionally good weather, the 1970 plan goal of 15 million tons of grain will certainly not be met.

34. In the long-run a gradual increase in average output levels can be expected. Growing inputs of fertilizer, better machinery and an enlarged irrigated acreage will undoubtedly lead to production increases. However, as the current equipment base ages and wears out and the equipment park grows and thus leads to larger absolute numbers of machines requiring replacement each year, the net investment in machinery will decline or become negative, given current equipment investment trends. This may counteract somewhat the benefits gained by other improvements.

35. In the foreseeable future, the country will remain self-sufficient in most agricultural produce, barring unexpected disaster.

III. INDUSTRY

36. Romania has achieved one of the highest rates of growth of industrial output in the world. Within East Europe, only Bulgaria has achieved a rate of industrial growth of similar magnitude. Romania's industrial progress has been partly at the expense of growth in its non-industrial sectors. The following table illustrates this point.

ROMANIA: INDEX NUMBERS OF OUTPUT BY SECTORS

<u>Sector</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
Industry	100	114	130	145	166	190	210	238
Building	100	109	115	119	129	136	147	165
Ag. & Forestry	100	103	91	95	99	101	117	117
Transport & Telecommunications	100	117	127	151	166	180	198	221
Trade	100	115	111	137	161	166	146	132
Other Branches	100	96	100	95	97	96	106	116
National Income	100	110	115	126	140	154	169	183
Per Capita NI	100	109	113	123	137	149	163	174

37. It may be seen from the above table only the "transport and telecommunications" sector of the economy has experienced growth that in any way approaches the rate achieved by industry. This may be explained in that a large part of the growth of the former sector would be directly associated with growth in industry. For example, an increased output of steel would require an increase in transportation facilities to handle the increased steel output as well as the increased inputs of iron ore, coke, and limestone. The same argument could explain much of the growth in output of the "building" sector; that is, much of Romania's new construction has likely been industrial, rather than residential, in order to accommodate the country's industrial expansion. The table shows that there has been negligible growth in "agriculture and forestry" since 1960.

38. Rapid industrialization in Romania has also occurred at the expense of personal consumption. That is, capital goods production has consistently received priority over consumer goods production. Romanian industrial output is weighted two to one in the ratio of capital goods to consumer goods. In Eastern Europe, where investment has always formed a large part of national income, Romania is said to have one of the highest investment-national income ratios.

39. According to official Romanian data total industrial output has grown at an average rate of 13.2 per cent per year for the period 1951-1967. A slightly higher rate of 13.4 per cent per year is reported for the period 1961-67. Industrial growth, however, is slowing down with the rate of increase of industrial output averaging 12.6 per cent between 1966 and 1967 and 11.6 per cent between 1967 and 1968. The plan for 1969 prescribes an increase of 10.8 per cent over 1968.

40. Several sectors of industry in Romania have taken advantage of its domestic natural resources. A brief description of these natural resources follow.

41. Forests cover one-quarter of Romania. Damage incurred during the war through harvesting without afforestation was somewhat repaired by reafforestation in 1948 of about one-tenth of Romania's forested area. Romania's forest resources now produce an annual timber production of just over 5 million cubic meters. Continuing afforestation has presumably put Romania's forest sector on a sustained yield basis.

42. Romania possesses the largest source of natural gas in Europe. Extraction of this methane gas has risen from some 2 billion cubic meters in 1950 to 7 billion cubic meters in 1960 and to over 16 billion cubic meters in 1967. It is used widely for lighting and heating and has become a base for the chemical industry. Romania has also petroleum reserves but these are more limited than those of methane gas. Extraction has increased from 5 million tons in 1950 to 11 million tons in 1960 but appears to be levelling off at about 13 million tons per year.

43. Romania does not have large reserves of iron ore. Domestic production has currently levelled off at about 2.7 million tons annually. Domestic demand for iron ore is filled through growing imports of iron ore which reached 3.4 million tons in 1967. Similarly, Romania has very little domestic coking coal and currently imports are about 800 thousand tons per year.

44. The table below shows that four of Romania's principal industries, i.e., the food, chemical, forestry and fuel sectors, are oriented toward its natural resource base. These sectors produce a combined output of 41.7 per cent of total industrial output.

PRINCIPAL INDUSTRIAL SECTORS IN TERMS OF GROSS OUTPUT
(1963 prices)

<u>Sector of Industry</u>	<u>Share of Gross Industrial Output in 1967(per cent)</u>
1. Engineering and metal working	22.3
2. Food	20.5
3. Ferrous metallurgy	8.3
4. Chemical	7.9
5. Forestry operation and wood working	7.2
6. Textiles	7.2
7. Fuel	6.1
8. Ready-made clothing	4.5
	<u>84.0</u>

45. Romania's industrial growth has centered around the development of the chemical and engineering industries, plus the necessary supporting industries of methane gas extraction, steel and power. Pulp and paper output has also grown rapidly but this sector remains a very small part of total industry. The following is a ranking of Romania industrial sectors or subsectors by the per cent increase in their output over the period 1965-67.

ROMANIA : GROWTH AND SIZE OF INDUSTRIAL SECTORS

<u>Sector, or Subsector of industry</u>	<u>Per cent increase in Output 1965-67</u>	<u>Share of Gross Industrial Output - 1967(Per cent)</u>
1. Metal construction and metal products	52	3.6
2. Electric and thermal power	50	3.0
3. Chemical	50	7.9
4. Pulp and Paper	47	1.4
5. Ready-made clothing	37	4.5
6. Non-ferrous metallurgy (including non-ferrous ore mining)	37	3.4
7. Electrical engineering	36	3.1
8. Engineering	29	12.1
	27	
(average for all producer goods)		

46. The eight sectors of industry shown are those which grew between 1965 and 1967 at rates above the average of all industrial output. It can be seen that although the fastest growing sector, "metal construction and metal products" is not

primarily a domestic resource-based industry (since it must depend partly on iron produced from imported ore) the next three fastest growing sectors are domestic resource-based industries (electric and thermal power, chemical, and pulp and paper). The rapid growth of the ready-made clothing industry perhaps reflects a policy of allowing the consumer a slightly greater share of the national product. Given available information it is not clear whether or not the "non-ferrous metallurgy" sector of industry is domestic resource-based. For example, if the growth of this sector is concentrated in aluminium production based on domestically-mined bauxite, or in lead production based on domestically-mined galena ore then the growth of this sector could be regarded as domestic resource-oriented. On the other hand, growth of this sector could be concentrated in metals requiring imported raw materials.

47. In summary, of the four very rapidly expanding sectors of industry, three (accounting for 12.3 per cent of gross industrial output) are clearly domestic resource-based while metal construction and metal products (accounting for 3.6 per cent of gross industrial output) are dependent on imported inputs. Of the remaining four sectors of industry exhibiting above average rates of growth at least three (accounting for 19.7 per cent of gross industrial output) are heavily dependent on imported goods.

48. Considerable diversification accompanies Romania's industrialization programme. Some of this diversification can be seen as import-substitution, that is, the domestic production of goods formerly imported. For example, the present year will see the construction of a plant to produce 34,000 tons of cold rolled steel annually to be used for production of steel pipes. Also under construction is a styrene plant with an annual production capacity of 7,000 tons. The products which these plants will soon be producing are now being obtained from the West in significant quantities. Thus, the domestic production of these products will help Romania conserve its scarce hard currency foreign exchange.

IV. TRADE

Geographical Distribution

49. In the period 1960 to 1968 Romania's foreign trade registered an average annual growth rate of over 11 per cent, the second most rapid rate in Eastern Europe following Bulgaria's 14 per cent. Romania's imports, financed heavily by western credits, grew at a much faster rate than did Romania's exports. This trend has stemmed from a policy of acquiring increased quantities of sophisticated capital goods from non-communist countries at the expense of trade with COMECON partners. While exports from 1960 to 1967 increased from \$ 717 million to approximately \$1.4 billion, or double the 1960 level, imports rose from \$648 million to over \$1.5 billion, an increase of over 130 per cent.

50. Since 1960, Romania's policy has been gradually to redirect a substantial part of its foreign commerce away from its communist trading partners. Such a policy is motivated not only by a desire to lessen its economic dependence upon these countries (in particular the Soviet Union), but also by the recognition of the benefits to be derived from tapping western sources of advanced engineering and technology. In 1960, 73 per cent of its trade was conducted with other communist nations; by the end of 1968 this share had been reduced to 54 per cent (53 per cent in 1967). COMECON members as a group accounted for only 47 per cent of Romania's trade in 1967, as against 67 per cent in 1960. In 1960, 40 per cent of all Romania's trade was directed to the Soviet Union; in 1967 this share had dropped to 28 per cent.

51. The trend in the geographical pattern of import trade away from the communist countries has been pronounced in the 1960's. An increase from \$148 million to almost \$720 million was registered in purchases from the industrial non-communist countries in 1960-67, whereas imports from COMECON members rose only to \$690 million from \$440 million in 1960. While imports from the developing countries more than doubled in the same period, the aggregate value for 1967 reached only \$72 million. This figure is fairly close to the \$64 million purchased from Romania's non-COMECON trading partners.

52. Romanian exports to COMECON countries have increased by less than 50 per cent since 1960, while during this period total exports almost doubled. This comparison is distorted to some extent by the 1966 COMECON foreign trade price reduction covering a limited group of commodities, but it is impossible to determine the exact degree to which these price reductions affected the total value of goods exchanged. Exports to the Soviet Union increased by slightly more than the average growth rate in Romania - COMECON trade, and rose in value from \$281 million in 1960 to \$433 million in 1967. Commodities supplied to other COMECON members rose from \$190 million to about \$268 million. Sales to Asian Communist countries amounted to \$182 million in 1967, from \$48 million in 1960. In line with Romania's more dependent stance, Romanian-Chinese trade has gradually increased and in 1967 exceeded the 1960 level.

53. Exports to the non-communist countries have more than tripled between 1960 and 1967, rising from about \$194 million to \$606 million. Deliveries to the industrially developed countries increased in value from \$147 million to \$424 million. Three-quarters of these exports went to the Federal Republic of Germany, Italy, the United Kingdom and France, in that order.

54. Exports to the developing countries (in 1967 valued at about \$180 million) constitute less than a third of Romania's sales to non-communist countries. However, this represents a fourfold increase over a negligible level in 1960. Over half these exports were supplied to Lebanon, the United Arab Republic and Iran.

Commodity CompositionGeneral

55. The emphasis on expanding its stock of capital goods and engineering equipment in recent years has been characterised by a marked advance in Romania's imports of machinery and equipment since 1960. During the 1960-67 period these imports grew from about \$210 million to approximately \$755 million, representing in the latter year almost half of total imports compared to 32.5 per cent in 1960. Preliminary figures show that while the main weight within imports continues to be carried by complex industrial installations, machinery and equipment, their share of imports in 1968 declined to 46.1 per cent. Imports of solid fuels, mineral raw materials and metals, although increasing substantially in absolute terms, in 1967 provided only a quarter of all imports, as against 35 per cent in 1960. Despite the country's low standard of living, consumer goods accounted for less than 7 per cent of imports.

56. Before 1960 petroleum products, agricultural processing materials and foodstuffs were predominant in Romania's export trade. In the ensuing years some success has been achieved in broadening the formerly restricted base of agricultural and primary products. Shipments of machinery and equipment in 1965 were almost double the 1960 level and in 1968 accounted for 21.3 per cent of total exports. The share of chemicals, fertilizers and rubber has increased appreciably from 2.2 per cent to 8.0 per cent, reflecting the growing importance attached to the chemical industry as a valuable contributor to the country's industrial output. Consumer durables doubled their share of exports since 1960 to reach 11 per cent by 1967. On the other hand, the share of petroleum products in total exports has been reduced from 24 per cent in 1960 to less than 9 per cent in 1967. However, Romania remains a primary product exporter. Foodstuffs and raw materials for the food processing industries currently represent almost 28 per cent of all exports as against 21 per cent in 1960. Agricultural raw materials (non-edible) and mineral raw materials and metals each accounted for about 12 per cent of Romania's exports in 1967.

Composition of Trade With Non-Communist Countries

57. Self-sufficiency in food and natural resources adequate to satisfy the greater part of current industrial requirements have enabled Romania to acquire a larger proportion of capital equipment in its import mix than any other East European country, with the exception of Bulgaria. In this respect Romania has gained an appreciable degree of independence from the COMECON countries. Of all machinery and equipment purchased in 1966 and 1967, almost half originated from the non-Communist industrial countries. The major Western suppliers were the Federal Republic of Germany, France, Italy and Japan in that order. Japan has recently emerged as an important potential source of capital goods and technical know-how, though purchases from it are as yet relatively small.

58. With its emphasis on a diversified industrial structure, Romania has greatly expanded its imports both of Western capital equipment, embodying advanced technology, and of high quality industrial materials. In 1959 only one-fifth of imports from the West consisted of machinery and equipment whereas by 1967 the proportion had grown to over one-half. Imported plant installations are supplying an important increment to Romania's industrial base. In 1967, of the \$755 million worth of machinery and equipment received from all sources, \$345 million was in the form of equipment and materials for complete plants. In line with its policy of greatly expanding the chemical and petro-chemical industries, Romania imported a complete chemical plant worth almost \$45 million from the Federal Republic of Germany.

59. Purchases of metal and metal products enjoy an above average rate of growth and constitute almost 14 per cent of total imports from the West. Chemicals have continued to hold about an 8 per cent share in imports from the West, increasing five-fold in value since 1960. Purchases of textile fibres and foodstuffs, on the other hand, have declined significantly in importance.

60. The developing countries, primarily the United Arab Republic, Iran and Syria, in 1967 were a major source of cotton imports for Romania while India supplied iron ore as part repayment for industrial equipment. There are indications that Romania may try to import oil from the developing countries in return for industrial goods which, in terms of quality or price, prove uncompetitive in hard currency markets.

61. In an endeavour to help pay for its expanded imports, Romania's export policy has been geared to increasing the range and quality as well as the volume of the export assortment available. The single most important factor in boosting exports to the non-Communist countries continues to be Romania's increased deliveries of foodstuffs, which in 1967 were twice the 1965 level, and made up about 35 per cent of all exports to the countries outside the Communist areas. Through vastly increased sales of wheat and corn, close to \$70 million was realised in hard currency in 1967. About \$25 million worth of wheat was sold on a bilateral clearing account basis to the United Arab Republic in return for essential supplies of cotton for Romania's textile industry.

62. Romania's emphasis on up-grading its engineering industry in recent years is paying off to some degree in the emergence of machinery and transport equipment as a new and expanding export item in trade with the non-Communist countries. The output is still largely restricted to equipment for the petroleum extractive industry, and agricultural and transport equipment, most of which is directed to the developing areas of the world. The immediate prospects for an expansion of these items as export commodities is poor. Romanian equipment is, on the whole, of a rather low level of technology and unsuitable not only in the industrially developed countries but also to some extent in the more advanced of the Communist and non-Communist developing nations.

63. Modest success has been achieved in the marketing of manufactured goods outside the Communist trading area. Manufacturing goods in 1967 made up 15 per cent of exports to the West and constituted the second highest category in value. Exports of this group increased by about 70 per cent over the 1965 level (from \$46 million to \$78 million).

64. One field with export potential which Romania has recently been exploring in its trade relations with the developing countries involves the attempt to capitalise on its advanced fund of experience in the fields of oil prospecting, extraction and processing. With surplus refining capacity at home and an almost fixed level of indigenous crude oil output - with very little apparent prospect of bringing in new wells - Romania has been looking to the possibility of substantial imports of crude oil from the Middle East and Latin America. Increased supplies will be required to supplement domestic output in order to feed its expanding chemical industry. In return, Romania hopes to cover at least part of the very substantial payment outlay this would entail by the sale of oil field equipment and services. Such a strategy could allow Romania to expand her sales of chemical products in hard currency markets.

65. Although ratification of a deal to purchase crude oil from Iran has not been confirmed, Romania is reportedly receiving supplies from this source. Repayment could conceivably entail Romanian oil equipment.

66. An agreement reportedly worth about \$100 million was concluded early in 1968 with Saudi Arabia, providing for the import of 9 million tons of crude oil in return for Romanian consumer goods and industrial equipment over a four-year period; it is not known whether petroleum-related equipment is involved.

67. Also in 1968, Romania and Venezuela agreed in principle to the supply of 11 million tons of crude oil to Romania over a period of ten years, and it was reported that Romania had offered counter-deliveries of oilfield equipment and services. Venezuelan oil, entailing a long tanker haul, would perforce be expensive, but a deal incorporating joint oilfield development could possibly be economically feasible for both sides. At any rate, increased efforts to expand this area of foreign commerce may be forthcoming. Success in implementing this programme for the expansion of crude oil imports could increase the volume and range of petroleum products available for export to the West European market.

Composition of Trade with Communist Countries

68. Romania's economic dependence on its Communist trading partners has been appreciably reduced over the last decade. Nevertheless, the Soviet Union maintains economic domination through mutual trade and credit arrangements, political ties, geographic proximity and commitments to the Warsaw Pact.

69. Romanian imports from the COMECON countries consist primarily of machinery and equipment and rolled steel (including pipe). In 1966, approximately 60 per cent of purchases in these categories came from its COMECON partners; one-third from the USSR and the remaining two-thirds from the other COMECON countries, chiefly Czechoslovakia, Poland and the Soviet-occupied Zone of Germany. Reflecting the sharp rise in 1967 in imports of machinery and equipment from the West, the share of the COMECON countries' deliveries dropped from an estimated 60 per cent of all imports in 1966 to about 50 per cent in 1967; the Soviet Union's share fell to an estimated 15 per cent of all imports in this category, the remaining 35 per cent coming from the other COMECON countries. Notwithstanding the trend toward increased purchases of capital equipment from the West, Romania remains heavily dependent on Communist and more specifically Soviet machinery in certain key industrial areas. The Galati Steel Mill and the Iron Gates hydro-electric power and navigation system, two of the largest industrial development projects currently under construction, are receiving major portions of machine plant and technical services from the Soviet Union.

70. Preliminary figures for 1968 reveal that overall imports of machinery and equipment decreased in volume. There has been no indication that the unprecedentedly high purchases of capital goods from the West have been repeated in 1968, suggesting that the drop is a result of a decline in the volume received from the West, rather than a further reduction in COMECON's share. This development may, in turn, be explained by a need to absorb the recent large procurements into the industrial base, and a reluctance to amass further hard currency debts, rather than a deliberate government decision to reverse the trend toward increased imports of Western technology.

71. In 1967 Romania purchased almost 1.5 million tons of rolled steel (including pipe), approximately one-half of this from the Soviet Union and a small amount from the other Communist countries. Romania is dependent on the area for much of its supplies of iron ore, which is of increasing importance to the metallurgical industry. Purchases in 1967 amounted to 3.4 million tons, the greater part (2.7 million tons) coming from the Soviet Union. In solid fuels Romania is only marginally dependent on outside resources, and the required increment to domestic supplies is again largely supplied by its COMECON trading partners.

72. Communist countries provide the principal export market for Romania's manufactures, more particularly machinery, rolled steel, petroleum products and consumer goods, some of which would have difficulty competing in Western markets because of their inferior quality.

73. Machinery and equipment, which in 1968 amounted for 21.3 per cent of total exports, was sold almost exclusively in Communist markets. A small amount of agricultural machinery was purchased by the developing countries. The Soviet Union in 1967 was the largest single buyer, taking some \$80 million worth, or one-third of export production, largely in the form of oil refinery equipment, ships and marine supplies and equipment for the chemical industry. Romania exported \$55 million worth (out of \$125 million) of petroleum products to the Communist countries - over one-half of which was received by the Soviet Union alone. The Soviet Union is Romania's principal market for rolled ferrous metals and metal tubes.

74. Timber and wood products are basic convertible currency earners. However, in 1967, the Soviet Union purchased some \$40 million worth and smaller quantities were sold to other Communist countries.

75. Romania has recently expanded its exports to the Chinese People's Republic - \$40 million in 1967 - and to North Vietnam - \$20 million. It is difficult to determine the composition of these exports, but from fragmentary information it is suggested that goods to China were comprised chiefly of oil drilling equipment, ships and other machinery, while those to North Vietnam (in accordance with the economic agreement signed late in 1967, providing for non-repayable economic and military assistance to be granted in 1968) were composed mainly of railway rolling stock, road vehicles and other hard goods.

Balance of Trade

76. The substantial growth of exports to the non-Communist countries in the past decade has fallen far short of the even more rapid rise in imports. Romania's annual trade deficit with this area has increased gradually from \$31 million in 1961 to a high of \$144 million in 1967, and for the period 1960-67 the cumulative trade deficit amounted to about \$486 million.

77. The trade deficit with the industrial countries amounted cumulatively to some \$700 million between 1960 and 1967. The disparity between the export and import value has been particularly pronounced in the last three years. Conversely, Romania realized an export surplus of about \$215 million in its trade with the developing countries, reflecting its shipments under its economic aid programme.

78. For the period 1960 to 1967 Romania's trade balance with all Communist countries has moved from a position of surplus (1960-61) to one of a sizable deficit (1962-64) and back to surplus (1965-67). For the whole period, however, the cumulative trade balance shows a deficit of only \$6 million.

79. In all but three years Romania's trade with the East European countries (excluding the USSR) has resulted in trade deficits, the cumulative trade balance with these countries for 1960-1967 being a deficit of \$146 million. In contrast, Romania's trade with the USSR has resulted in trade surpluses in all but two years, the cumulative trade balance being a surplus of \$68 million. An even greater surplus of \$73 million has been accumulated through trade with the remaining Communist countries. Thus, the approximate balance of Romania's trade with all Communist countries in the 1960-67 period conceals a cumulative trade deficit with East European Communist countries and surpluses in trade with the USSR and the other Communist countries.

80. Between 1965 and 1967 Romania's balance of trade with all Communist countries moved into a surplus position. This surplus, however, declined from the peak of 1965 because of a deterioration in the balance of trade with the East European countries. Imports from East Europe rose rapidly while exports actually fell in 1966 and rose only slightly in 1967. Trade with the USSR continued to show a surplus. The growing surplus on the account with non-COMECON Communist countries is largely a result of aid shipments to North Vietnam.

V. FINANCE

Convertible Currency Requirements(1)

81. Romania does not subscribe to Article VIII of the International Monetary Fund and thus cannot pay for merchandise and invisible item imports in her own currency. Possible methods of financing imports include export earnings, gold sales, credit arrangements and depletion of foreign exchange reserves.

(1) This section includes transactions between Romania and non-Communist countries, excluding those which are known to trade only on a bilateral basis. Transactions among Communist countries are excluded even though there may have been settlements of minor significance in convertible currencies. On the other hand these figures may include transactions in soft currencies through bilateral arrangements for which there is no information.

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82. Romanian foodstuffs, timber and timber products and petroleum products have found growing acceptance in Western markets allowing convertible currency earnings from exports to rise from \$131 million in 1961 to \$374 million in 1967. This growth rate of convertible currency earning exports is unmatched by any other East European country.

83. While Romanian exports to developed non-Communist countries provide increasing absolute amounts of hard currency, they are financing a progressively smaller proportion of convertible currency purchases. Romanian imports (principally technically-advanced machinery and equipment) have increased fourfold during the 1961-1967 period. Thus Romania's annual trade deficits with convertible currency countries have risen from \$10 million in 1961 to the largest such deficit ever experienced by a Communist country outside the Soviet Union - a record \$182 million in 1967.

84. The most important item covering the deficit in convertible currency is the extension of medium-term credits to Romania by the West. As of June 1968, credits of over five years, which had never been granted before 1964, stood at \$373.5 million out of a total \$731 million granted by NATO countries to Romania. Romania ranks second only to the USSR in the absolute amount of credits outstanding to NATO countries. Romania leads all the Communist countries when credits are expressed as a per cent of GNP, and places a close second to Bulgaria if a per capita base is used. The chief donor countries are found in NATO Europe, namely, the Federal Republic of Germany, France, the United Kingdom and Italy. Each has underwritten large export credits to help finance the purchase of capital equipment from their own country.

85. There are difficulties in using the NATO private and public-guaranteed credits outstanding variable as a measure of Romania's indebtedness. Romania's actual debt burden to non-Communist countries is that proportion of credits which has been drawn plus accumulated interest, less any repayments made. There will be a substantial difference in the amounts corresponding to these two concepts since credits recorded as granted in one year will probably cover goods to be delivered over an extended period of years. The debt service ratio calculated as reimbursements made by Romania to NATO countries during 1967 as a per cent of the value of f.o.b. exports to convertible currency countries is .18. This is somewhat higher than the accepted level for underdeveloped countries. The actual debt service ratio can be assumed to be significantly higher if data on total repayments were available.

86. A potential source of foreign currency unique to Romania among the East European countries is its gold deposits. Romania does mine gold but there is no evidence to suggest important new discoveries. Hence, current production must of necessity be derived from the intensified exploitation of the existing already well-worked mines. Competing demands on the limited quantity of gold available include: (1) financing that part of the hard currency trade deficit **not** covered by credits; (2) repayments of principal and interest on credits drawn; (3) building up of reserve balances; and (4) use for domestic industrial purposes. There is no information to suggest how Romania allocates her scarce supply among these alternative uses.

COMECON Currency Requirements

87. Romania's trade with the Soviet Union and other East European countries is planned in five-year bilateral trade agreements which are confirmed through annual trade protocols. In 1964 the International Bank for Economic Co-operation (IBEC)(1) was set up to promote multilateral clearing of trade balances among COMECON partners. Member countries initially contributed a sum of their national currencies to the paid up capital of the IBEC in proportion to the volume of exports in their mutual trade. Romania's subscription quota to the IBEC is approximately 5 per cent of the authorized capital of 300 million "transferable roubles".

88. Prior to the formation of the IBEC, settlements were conducted through bilateral clearing accounts and the balance of these accounts in favour of one trading partner could not be utilized for payments to a third country. Bilateral payments balancing automatically depresses trade to the export capacity of the weaker partner in every agreement thereby restricting the volume of trade. A multilateral payments system in transferable roubles requires only that the transactions of a country be in balance with the COMECON area as a whole. Thus, expectations were for a faster expansion of intra-COMECON trade which has never occurred. In practice, the COMECON countries have preferred to conduct trade among each other on a strictly bilateral basis especially in deals involving hard goods. There are no data on Romania's activity within the International Bank for Economic Co-operation, but the total volume of payments in transferable roubles among IBEC members in 1967 increased by 11.4 per cent. IBEC credits can be classified in three categories. They may be settlement credits, arising from short-term requirements in current trade; seasonal credits of up to one year, granted to banks in the IBEC countries with seasonal production and marketing fluctuations; or special two-year credits to pay for goods purchased over and above the mutual deliveries agreed in advance or for equilibrating the balance of payments.

(1) IBEC members are: Bulgaria, Hungary, the Soviet-occupied Zone of Germany, Mongolia, Poland, Romania, Czechoslovakia and the USSR.

89. Despite the formation of the IBEC, intra-COMECON trade has grown at a slower rate than has communist trade with the West. For Romania's part this is primarily due to the requirement for technically-advanced machinery and equipment imports from the western world. However, institutional deterrents to an expansion of growth in trade among IBEC members are obvious. True multilateralism cannot exist when trade agreements are signed annually on a bilateral basis. Furthermore, rouble transferability is not the same as rouble convertibility. Nations showing a surplus on their balance of trade accounts are merely lending disguised purchasing power to the debtor countries. Creditor partners cannot spend accumulated credits on hard currency imports which they require. Hence, for the more industrialized economies there exists no incentive to expand intra-COMECON trade. Before COMECON can become a viable working unit, economic relations must be governed by commercial, rather than inflexible political, criteria.

90. Romania is not a large donor or recipient of communist credits. The amount of investment credits granted to Romania in the past has never been large compared to those granted to Bulgaria, Soviet occupied zone of Germany, and Poland. Long term credits extended and received in the last decade have been predominately for manufacturing and processing plants and to finance joint projects. Terms often allow repayment in commodities

VI. FOREIGN ECONOMIC RELATIONS IN LIGHT OF THE WARSAW PACT
INTERVENTION OF CZECHOSLOVAKIA

91. The Czechoslovak crisis of August 1968 has both strengthened the will of Romania to preserve what independence it has won during the past from the USSR while making it abundantly clear just how quickly that independence can be destroyed. Romania will therefore have to be extremely cautious in executing any moves which could be interpreted by the USSR as dangerous to the unity of the communist countries. This will certainly be true with respect to Romania's apparent determination to trade with non-communist countries where such trade is to the economic advantage of Romania.

92. Romania has long resisted COMECON pressure to have Romania remain a supplier of grain and raw materials for the East European communist countries. In an effort to industrialize its economy as rapidly as possible, Romania has sought to expand trade relations with the developed countries of the West. Consequently, Romania has tied the success of her industrialization programme largely to imports of advanced capital equipment from non-communist countries. As the following table illustrates, Romania exceeds all other COMECON countries in its dependence on trade conducted with the West.

EAST-EUROPE: TRADE WITH NON-COMMUNIST COUNTRIES, 1966-1967

Country	Share of imports from non-communist countries as a percentage of total imports		Share of exports to non-communist countries as a percentage of total exports	
	1966	1967	1966	1967
Romania	42.8	51.3	38.0	43.5
Poland	35.7	34.3	38.4	36.2
Hungary	35.1	33.4	31.6	31.4
Czechoslovakia	29.7	28.0	29.8	29.1
Soviet occup. zone of Germany	28.2	26.2	25.6	25.0
Bulgaria	30.4	26.1	23.6	22.7

93. However, it is reasonable to assume that there must be a gradual shift of emphasis from imports to exports in the long run. Romania cannot expect, and would not wish, to incur convertible currency debts at the rate of growth which it has experienced in the last few years. Having established an advanced technological base for industry, Romania will presumably no longer require such massive amounts of capital equipment. Instead, efforts will probably be made to earn convertible currency through sales of manufactured, as well as primary goods. Whether the total share of non-communist trade with Romania will remain at its present level of 46 per cent will depend, among other things, upon Romania's success (or failure) to shift from buying to selling in Western markets.

94. Undoubtedly the Soviet Union is keeping a close watch on the growing reliance of Romanian trade on financial indebtedness to non-communist countries. There are subtle measures (such as slow deliveries of crucial industrial outputs, delayed negotiations, etc.) by which the Soviet Union can create bottlenecks over time and seriously hamper the efficient functioning of Romanian industry. However, it is not expected that overt economic sanctions will be imposed upon Romania. The Romanian Communist Party is united within its own ranks in contrast to the conflict between the liberal and conservative elements in the Czechoslovak Communist Party. Furthermore, Romanian economic reforms aim at streamlining the existing command economy rather than moving toward a socialist market economy as was the aspired goal of Czechoslovakia. The Romanian Communist Party has retained tight central control over the press unlike the policy practised in Czechoslovakia before the Warsaw Pact intervention. Barring a change in Romania's actions, the Soviet Union will probably continue to take a liberal view towards Romanian foreign economic relations.

VII. ECONOMIC REFORMS

95. Compared with other East European countries, Romania is a latecomer to economic reform. The rapid growth of industrial production which Romania has achieved in the last decade largely explains Romania's approach to economic reform, a term which is officially avoided in favor of "a perfecting of the management and planning of the national economy". Limited changes in the operation of the economy are not expected to be implemented on any more than an experimental scale until 1970.

96. Economic reforms in East Europe in general have been drafted to try to overcome the shortcomings of the Soviet-type economic model. It is known, for example, that compared with industrialized non-communist countries, East European economies have greater capital-output ratios, higher inventory costs, lower levels of technology and lower levels of labour productivity. The weaknesses of the East European economies are thought to arise from the nature of the Soviet economic model itself. The model neglects market forces and price signals in favor of planners' choices which have been enforced largely in physical terms. While such "command" mechanisms may have been effective at early stages of economic development they have become less useful as an economy becomes more developed and complex. It is understandable then that the more developed economies of Eastern Europe such as East Germany and Czechoslovakia were the first to experiment with economic reform. In the last decade their annual rate of growth of industrial production has been substantially lower than the average for East Europe. On the other hand, Romania and Bulgaria, the least industrialized countries in COMECON, have enjoyed very high rates of industrial growth and only lately have considered the question of economic reforms.

97. Economic reform programmes in East Europe fall into two broad categories with respect to the means employed to attain a higher rate of investment productivity and growth of national income. The larger group, consisting of the reform programmes of East Germany, Poland, Bulgaria and Romania, aim only at a modernization of present economic management rather than any radical changes. For example, the reforms do not challenge the political primacy of the Communist Party and the power of central planners over key allocation decisions. In contrast, the economic reform programme of Hungary and, at least until August 21, 1968, that of Czechoslovakia, aims at the eventual creation of a socialist market economy.

98. The key difference between these two approaches lies in pricing policy. The Hungarian and Czechoslovak reform programmes prescribe gradual introduction of free market prices in order that price signals will play a larger role in the operation of the economy. On the other hand, the other East European countries, including Romania, intend to maintain

centrally-fixed prices. However, attempts will be made to bring prices more into line with production costs. Changes in the wage structure which will reward skill and quality through greater differentiation in wages are also being considered.

99. The creation of strong "industrial centrals" into which the enterprises of entire regions or whole industries will be combined is the basic feature of Romania's reform programme. Thus, decentralization of decision-making will not reach down to the level of the enterprise but only to that of these "centrals". The industrial centrals will inherit much of the detailed planning coordination and management from the central planning agencies enabling the latter to concentrate on broad policy questions. A greater degree of direct contact will be allowed between trade and production enterprises. Some large enterprises and centrals will be given more power to establish direct contacts with foreign trading partners and to set up sales agencies abroad. Final authority for all foreign economic relations, however, will remain with the Foreign Trade Ministry. Presumably these measures are being motivated by a desire to increase exports to convertible currency countries in light of Romania's limited foreign exchange reserves and heavy repayment due on commercial credits.

100. Romania's economic reforms are still in the experimental stage. The history of economic reform in other East European countries will give Romania an opportunity to learn some useful lessons. Thus, when and if Romania does implement its reform programme as scheduled in 1970, it can be expected to be accomplished with fewer disruptions to the economy and to achieve more or less the improvements in economic management aimed at.

VIII. GROWTH STRATEGY

101. An attempt can be made to evaluate Romanian economic development policy either as explicitly stated by the officials or as implied by their actions. However, it is meaningless to make a judgment on policy when such a judgment presupposes some economically valid analytical framework in Western terms (fundamentally marginal analysis). Since the market mechanism is not allowed to set factor prices in Romania, there is no method of determining the relative scarcity cost of the economy's resources. It is not sufficient that input prices are tied to the lagged averages of world markets. In order to allocate resources among alternative uses in the most productive manner, supply and demand forces must be allowed to determine comparative prices in both factor and product markets. In a socialist command economy, such as Romania's, opportunity costs are poorly reflected in prices. Thus, a criterion, other than maximizing economic welfare, must be found to evaluate Romania's economic development programme.

102. Romania has embarked upon a course of rapid industrialization. The motivation behind this drive for industrialization is probably a desire for the high living standards and prestige historically associated with industrial economies and a desire to avoid the vulnerability of predominantly agrarian economies to weather and volatile world markets for agricultural goods. However, such a policy can be pursued only at a very high price. Romania cannot afford to finance simultaneously a balanced investment package in industry and the necessary investment in agricultural improvements.

103. As discussed in the preceding agriculture section, Romanian agriculture is operating well below its capacity, given today's technology. Perhaps Romania is wise in going through a "tooling-up" process, that is rapid industrialization, for long-term economic development. On the other hand, by not exploiting the full potential of the agricultural sector, Romania has had to forego convertible currency earnings which might have been realized if agricultural output had been expanded to meet the demand of the 1960's. However, if the optimistic projections of world cereal production (based on the development of high-yield strains of wheat, rice, etc..) are accurate, then it seems apparent that world markets for cereals will become less and less profitable as time passes. Since Romania is already self-sufficient in domestically-producible foodstuffs, there appears to be little reason why Romania should expect anything but deterioration in the export demand for her surplus cereal production over the long term. (Of course, the picture would be much more favourable for Romania of the EEC and the United States liberalized their protectionist tariff policies with respect to agricultural imports). Investment in agriculture would likely be best directed at the production of commodities with a high income elasticity of demand in export markets, such as wine or industrial crops, the demand for which will rise with industrialization at home and abroad.

104. Given that a political fiat dictates a policy of rapid industrialization, it is sensible to ask whether Romania is rationally allocating its limited investment funds among alternative industrial sectors. The important factors include Romania's natural and human resources and the present and potential domestic and export markets for the industrial goods produced. The extent to which Romania is investing in industries with a natural resource base has been discussed in the earlier section on industry. The record in this respect is reasonable, given two additional factors, namely that Romania must develop import substitution industries to conserve her limited supply of convertible currency and Romania's desire to remain economically independent of the Soviet Union.

105. Romania, a country emerging from an agrarian past, is currently engaged in the transformation of peasant labour to industrial labour. The country has a considerable fund of

industrial skills and experience in the petroleum industry. The adaptation of imported technology and equipment to suit local conditions and materials will generate a demand for domestic research facilities.

106. However, an important problem arises when the export market for Romanian machinery and equipment is examined. In the past, Romanian industrial products have been of insufficient quality to compete in western markets. Success in selling to convertible currency countries has been mainly limited to primary products such as cereals, timber and petroleum. Yet much of the positive effect of machinery, equipment and technology imported from the West in the last few years has not had time to be reflected in production. It generally takes several years before a plant is completed and operating smoothly. In the long run, Romania may achieve considerable success in expanding exports from the chemical industry, for example. In order to sell the manufactured goods of other industrial branches, output must first meet the high quality standards set by international trade. Market research and aggressive sales policy are also essential if hard currency export earnings are to be significantly increased.

TABLE 1

EASTERN EUROPE : STATISTICAL PROFILE, 1967

	BULGARIA	CZECHOSLOVAKIA	EAST GERMANY	HUNGARY	POLAND	ROMANIA
<u>Population</u> (mid-1967 in millions)	8.3	14.3	17.1	10.2	31.9	19.3
<u>Area</u> (in sq.miles)	42,796	49,354	41,380	35,912	120,360	91,671
<u>Labour Force</u> (mid-1967 in millions)	4.56	6.80	8.32	5.09	15.9	11.5
<u>Participation Rate</u> (per cent of Labour Force)	54.9%	47.6%	48.7%	49.9%	49.8%	59.6%
<u>% of Labour Force Employed in Agriculture</u>	45.6%	18.4%	16.7%	29.3%	38.9%	59.6%
<u>GNP</u> (in billions of 1967 \$US)	\$8.4	\$25.5	\$30.5	\$12.9	\$35.5	\$18.1
<u>GNP/Capita</u> (in 1967 \$US)	\$1010	\$1780	\$1780	\$1260	\$1110	\$940

TABLE 2

ANNUAL IMPLEMENT DELIVERIES TO ROMANIAN AGRICULTURE BY SELECTIVE
TYPES, NET ADDITIONS TO CAPITAL STOCKS AND REPLACEMENTS (1)

	1963	1964	1965	1966	1967	1968
TRACTORS						
Annual Deliveries (units)	10,303	12,555	9,657	11,560	8,261	8,500
Net Addition to Capital Stock (units)	+9,861	+10,025	+5,970	+9,454	+2,016	(4)
Replacement Numbers	1,008	2,252	3,687	2,106	6,246	N.A.
Replacement as % of annual deliveries	10%	18%	38%	18%	76%	N.A.
GRAIN COMBINES						
Annual Deliveries (units)	3,629	3,146	2,199	4,041	4,935	7,800
Net addition to capital stock (units)	+4,093	+2,913	+1,438	+2,732	+2,210	(5)
Replacement numbers	- 464	233	761	1,309	2,725	N.A.
Replacement as % of annual deliveries	-13%(2)	7%	35%	32%	55%	N.A.
ROTARY HOES						
Annual deliveries (units)	N.A.	2,790	2,980	2,915	1,709	N.A.
Net addition to capital stock (units)	N.A.	N.A.	N.A.	+2,214	+ 48	N.A.
Replacement numbers	N.A.	N.A.	N.A.	701	1,661	N.A.
Replacement as % of annual deliveries	N.A.	N.A.	N.A.	24%	97%	N.A.
TRACTOR DRAWN PLOUGHS						
Annual deliveries (units)	10,304	12,479	8,969	8,299	4,961	N.A.
Net addition to capital stock (units)	N.A.	N.A.	N.A.	+4,257	-1,032	N.A.
Replacement numbers	N.A.	N.A.	N.A.	4,042	5,993	N.A.
Replacement as % of annual deliveries	N.A.	N.A.	N.A.	49%	(3) 121%	N.A.
MECHANICAL SEEDERS						
Annual deliveries (units)	10,114	2,502	3,008	4,484	3,998	2,300
New addition to capital stock (units)	N.A.	N.A.	N.A.	+1,309	-6,593	(4)
Replacement numbers	N.A.	N.A.	N.A.	3,175	10,591	N.A.
Replacement as % of annual deliveries	N.A.	N.A.	N.A.	30.8%	(3) 121%	N.A.
MECHANICAL SPRAYERS & DUSTERS						
Annual deliveries	N.A.	293	903	1,960	814	N.A.
Net addition to capital stock (units)	N.A.	N.A.	N.A.	862	686	N.A.
Replacement numbers	N.A.	N.A.	N.A.	1,098	128	N.A.
Replacement as % of annual deliveries	N.A.	N.A.	N.A.	44%	16%	N.A.

(1) The table was constructed by determination of the numbers of implements annually delivered to agriculture which actually appeared as net increases in the park of those implements during the year. Replacements were assumed to be the difference between annual deliveries and net additions to capital stock.

(2) Negative replacements are taken to indicate reactivation of combines which had previously been removed from the inventory of combines.

(3) Annual deliveries were less than retirements, i.e., the capital stock

(4) Preliminary. fell.

(5) Includes unknown number of maize combines.

INDEXES OF INDUSTRIAL PRODUCTION (Official data)

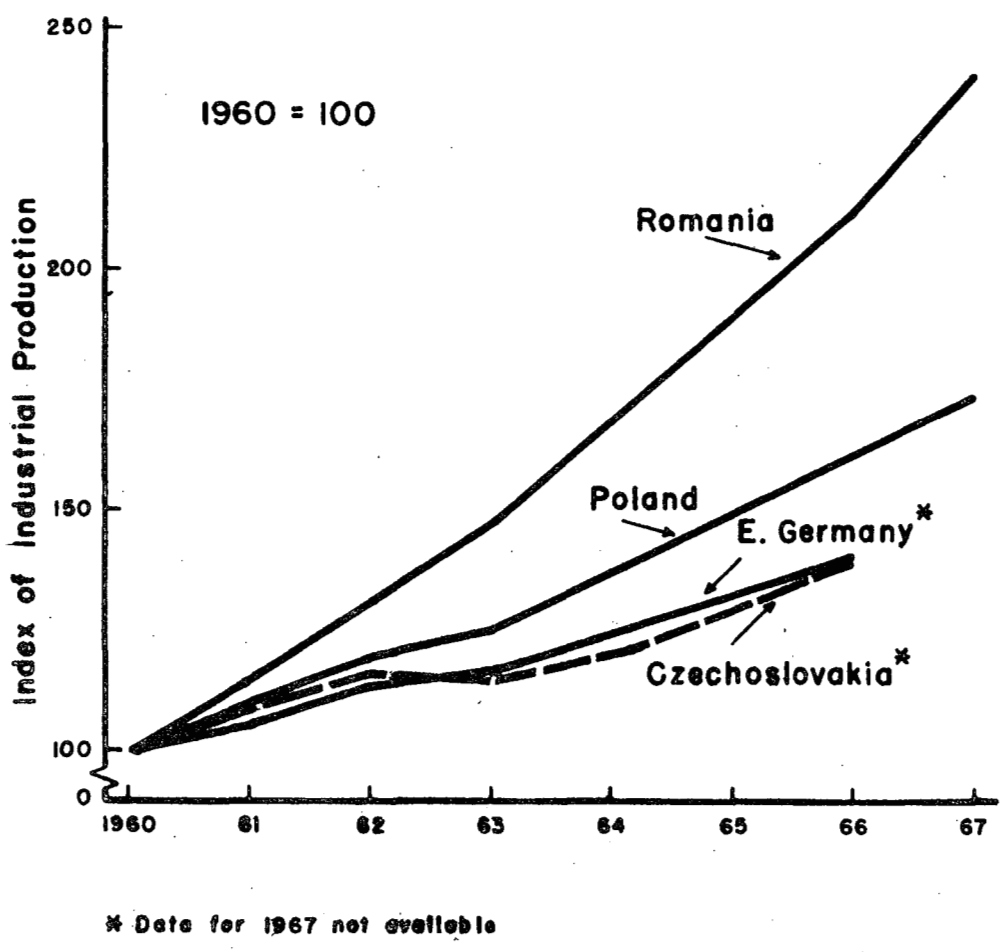


Figure 1

TABLE 3

EAST EUROPE: SHARE OF TRADE WITH NON-COMMUNIST
COUNTRIES, 1966-1967

COUNTRY	Share of trade with non-communist countries (per cent)				
	Exports			Imports	
	1966	1967		1966	1967
Bulgaria	23.6	22.7		30.4	26.1
Czechoslovakia	29.8	29.1		29.7	28.0
East Germany	25.6	25.0		28.2	26.2
Hungary	31.6	31.4		35.1	33.4
Poland	38.4	36.2		35.7	34.3
Romania	38.0	43.5		42.8	51.3

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TABLE 4

ROMANIA: DISTRIBUTION BY COUNTRY OF
 TOTAL TRADE, EXPORTS AND IMPORTS, 1967

Country		Total Trade (per cent)	Exports (per cent)	Imports (per cent)
Communist	Non-Communist			
USSR		28.2	31.0	25.6
	West Germany	12.0	6.9	16.6
	Italy	6.2	6.7	5.7
Czechoslovakia		6.0	6.2	5.8
East Germany		5.5	5.0	6.0
	France	4.6	3.9	5.2
	United Kingdom	3.9	4.6	3.3
Poland		3.3	3.5	3.0
	Austria	2.6	1.7	3.5
	Belgium	2.5	0.8	4.0
Hungary		2.5	2.7	2.2
Communist China		2.5	2.8	2.1
	U.A.R.	1.8	2.6	1.0
Bulgaria		1.6	1.5	1.6
Yugoslavia		1.5	1.5	1.5
	Japan	1.5	1.3	1.6
	Switzerland	1.5	1.2	1.7
	Lebanon	1.4	2.8	0.1
	Netherlands	1.2	0.9	1.4
	U.S.A.	0.9	0.6	1.1
	Spain	0.9	0.9	0.8
	Sweden	0.8	0.4	1.1
	Iran	0.8	1.2	0.3
	India	0.6	0.6	0.5
	Greece	0.5	0.8	0.3
Absolute Value of Trade (millions of US \$)		2,940.3	1,394.8	1,545.5

ROMANIA GEOGRAPHICAL DISTRIBUTION OF IMPORTS, 1960 - 1967

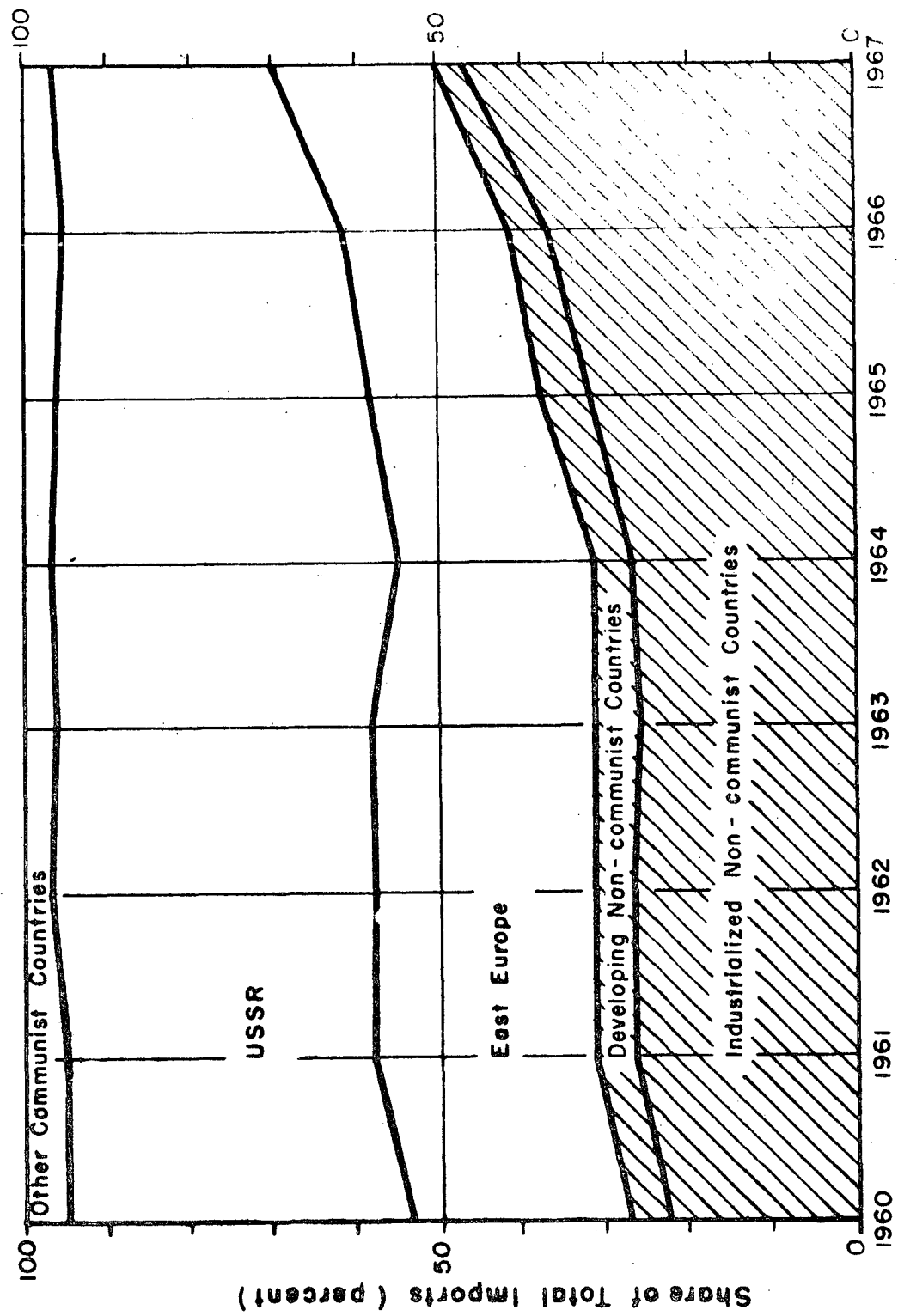


Figure 2

ROMANIA

GEOGRAPHICAL DISTRIBUTION OF EXPORTS, 1960 - 1967

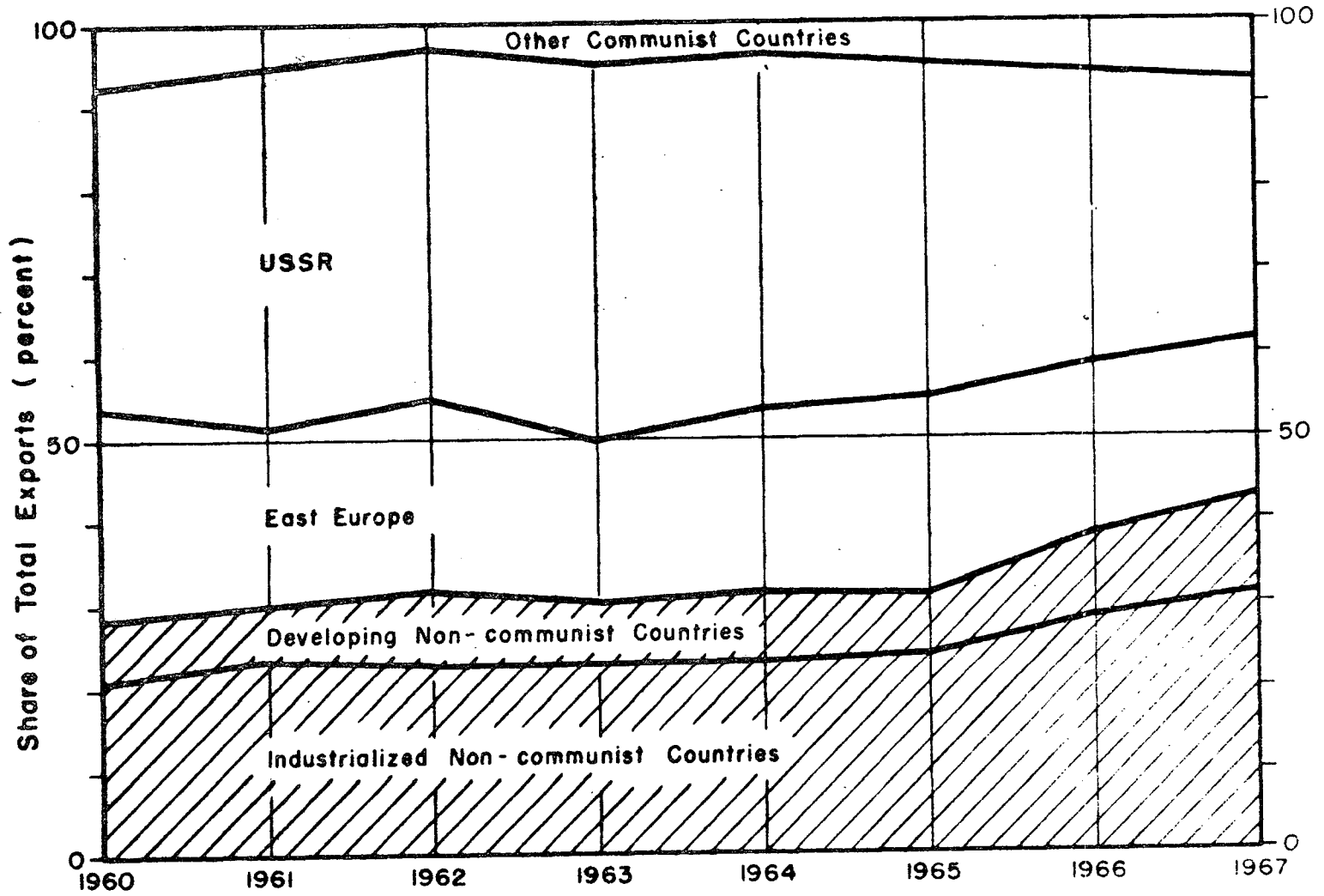


Figure 3

TABLE 5

ROMANIA : COMMODITY COMPOSITION OF IMPORTS FROM NON-COMMUNIST COUNTRIES, 1965-1967

COMMODITY GROUP	Percent of Total Imports		
	1965	1966	1967
1. Machinery and transportation equipment	36.8	39.9	50.7
2. Manufactured goods	27.4	25.5	25.2
Textiles	(5.3)	(4.3)	(4.6)
Metals and metal products	(15.7)	(15.0)	(14.7)
- of which : Iron and steel and semi-manufactures	(11.9)	(10.1)	(10.1)
Other	(6.3)	(6.3)	(6.0)
3. Textile fibres	11.7	9.1	5.3
Manmade fibres	(4.3)	(3.0)	(1.5)
Cotton	(7.4)	(6.1)	(3.7)
4. Chemicals	9.4	8.7	7.3
5. Crude and synthetic rubber	2.0	2.4	1.8
6. Foodstuffs	4.1	4.7	3.3
7. Iron ore and concentrates	2.3	2.6	0.6
8. Coke and coking coal	1.0	0.4	0.1
9. Other and unspecified	5.3	6.7	5.5
TOTAL (errors due to rounding)	100.0	100.0	99.8
ABSOLUTE VALUE (in millions of US \$)	394	494	721

TABLE 6

ROMANIA: COMMODITY COMPOSITION OF EXPORTS TO NON-COMMUNIST COUNTRIES, 1965-1967

COMMODITY GROUP	Per cent of Total Exports		
	1965	1966	1967
1. Foodstuffs	28.9	22.6	35.2
- of which: Corn	(10.9)	(1.7)	(6.8)
wheat	(-----)	(1.7)	(9.3)
2. Petroleum and petroleum products	16.4	14.7	11.2
3. Timber and timber products	20.4	16.4	12.5
4. Chemicals and rubber	5.3	4.5	5.1
5. Manufactured goods	14.3	16.4	14.7
- of which : Iron and steel and semi-manufactures	(1.6)	(3.3)	(3.2)
6. Machinery and transport equipment	1.9	2.4	3.2
7. Other and unspecified items	12.7	23.0	18.1
TOTAL (errors due to rounding)	99.9	100.0	100.0
ABSOLUTE VALUE (in millions of US \$)	322	421	529

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TABLE 7

ROMANIA: COMMODITY COMPOSITION OF IMPORTS FROM THE USSR, 1965-1967

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COMMODITY GROUP	Per cent of total imports		
	1965	1966	1967
1. Machinery and equipment	19.9	26.2	29.6
- of which:			
Complete plant	(6.6)	(8.8)	(9.1)
Auto transport and garage equipment	(2.3)	(3.9)	(3.0)
Aircraft industry	(2.5)	(2.0)	(2.7)
2. Coal and coke	4.1	4.6	4.4
3. Iron ore	4.5	6.0	6.4
4. Metal and metal products	41.8	37.5	33.2
of which:			
Iron and steel	(38.7)	(35.2)	(31.2)
Non-ferrous products	(3.1)	(2.2)	(2.0)
5. Fertilizers and farm pesticides	1.3	2.6	2.2
6. Cotton fibres	5.6	5.9	6.0
7. Consumer goods	2.4	3.5	3.2
8. Other	20.0	13.6	15.0
TOTAL (errors due to rounding)	99.6	99.9	100.0
ABSOLUTE VALUE (in millions of \$US)	402	386	394

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NATO CONFIDENTIAL

TABLE 8

NATO CONFIDENTIAL
APPENDIX to
AC/89-WP/269

ROMANIA: COMMODITY COMPOSITION OF EXPORTS TO THE USSR, 1965-1967

COMMODITY GROUP	Per cent of total exports		
	1965	1966	1967
1. Machinery and equipment	18.3	13.9	18.4
- of which:			
Oil well drilling equipment	(5.4)	(5.8)	(6.6)
Equipment for petroleum refineries	(3.4)	(0.2)	(-)
Ships and marine equipment	(3.5)	(3.0)	(4.2)
Equipment for chemical industry	(3.0)	(0.6)	(1.9)
2. Petroleum products	13.1	9.1	7.3
3. Steel ingots	1.6	1.5	2.4
4. Ferrous rolled stock	6.6	6.1	2.6
5. Pipes	10.0	11.8	11.3
6. Chemical products	1.8	2.0	2.4
7. Lumber and lumber products	8.2	8.9	9.4
8. Foodstuffs	11.8	16.1	12.0
9. Consumer goods	18.0	20.3	20.9
10. Other	10.6	10.4	13.3
TOTAL	100.0	100.0	100.0
ABSOLUTE VALUE (in millions of \$US)	440	405	424

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TABLE 9

ROMANIA: NON-COMMUNIST BILATERAL TRADING PARTNERS, 1967

Algeria	Lebanon
Austria	Mali
Brazil	Singapore
Ceylon	Spain
Cypres	Switzerland
Finland	Syria
Ghana	Tunisia
Greece	Turkey
Iceland	United Arab Republic
India	Yugoslavia
Iran	

TABLE 10

EAST EUROPE: BALANCE OF TRADE WITH CONVERTIBLE CURRENCY COUNTRIES

(in millions of \$US)

COUNTRY	1964	1965	1966	1967
BULGARIA				
Exports	+100	+135	+162	+165
Imports	<u>-157</u>	<u>-201</u>	<u>-307</u>	<u>-281</u>
Balance	-57	-66	-145	-116
CZECHOSLOVAKIA				
Exports	-360	-438	-492	-417
Imports	<u>+366</u>	<u>+412</u>	<u>+434</u>	<u>+455</u>
Balance	+6	-26	-58	+38
HUNGARY				
Exports	+210	+229	+255	+236
Imports	<u>-252</u>	<u>-252</u>	<u>-271</u>	<u>-293</u>
Balance	-42	-23	-16	-56
POLAND				
Exports	+523	+599	+623	+654
Imports	<u>-608</u>	<u>-580</u>	<u>-619</u>	<u>-668</u>
Balance	-85	+19	+4	-14
ROMANIA				
Exports	+180	+248	+303	+374
Imports	<u>-211</u>	<u>-295</u>	<u>-364</u>	<u>-555</u>
Balance	-31	-47	-62	-182

ROMANIA BALANCE OF TRADE WITH COMMUNIST COUNTRIES 1960-1967

In millions of \$ US

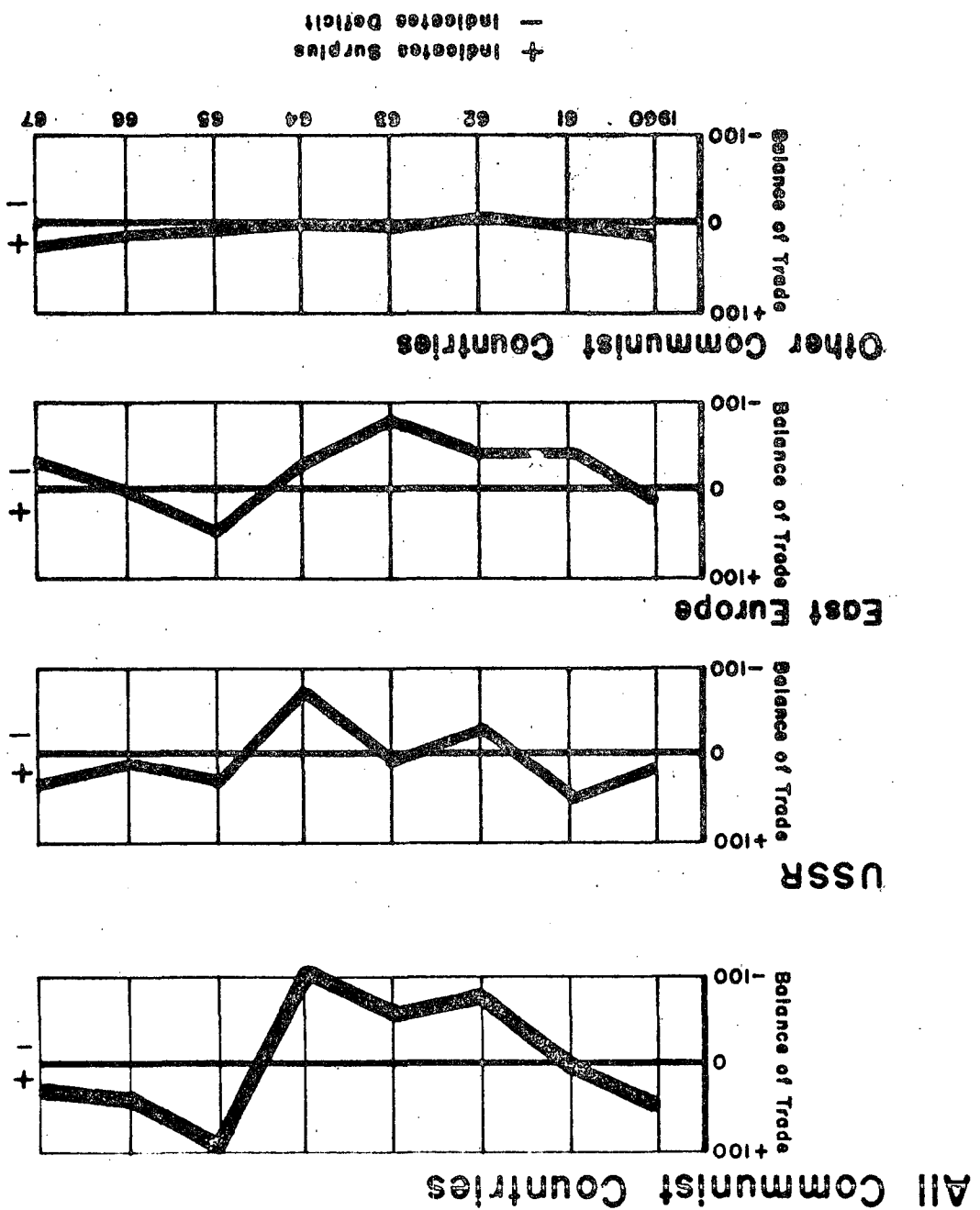


Figure 4

TABLE 11

ROMANIA: BALANCE OF TRADE WITH COMMUNIST COUNTRIES, 1965-1967

Romania's trade with:	Balance of Trade (in millions of \$US)			Accumulative Balance 1960-1967
	1965	1966	1967	
USSR	+ 32.3	+ 15.7	+ 36.4	+ 67.4
EAST EUROPE (excluding USSR)	+ 49.8	+ 7.3	- 25.8	- 146.2
OTHER COMMUNIST COUNTRIES	+ 14.1	+ 18.1	+ 24.5	+ 72.8
ALL COMMUNIST COUNTRIES	+ 96.2	+ 41.1	+ 35.1	- 5.9

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CHART 1

CHART TO COMPARE REFORM MEASURES
IN COMECON COUNTRIES

Measure	Adoption in principle by						
	U.S.S.R.	E. Germany	Poland	Czech.	Hungary	Bulgaria	Romania
1. A reduction in the number of technical and economic indicators given as commands to producers by central authorities, i.e., decentralized decision-making.	x	x	x	x	x	x	x
2. Profit becomes most important indicator of enterprise performance.	x	x	x	x	x	x	x
3. Profits to be used to reward enterprise and labour.	x	x	x	x	x	x	x
4. Interest change on capital	x	x	x	x	x	x	x
5. Increased use of bank credits for financing investment.	x	x	(x)	x	x	x	x
6. Direct commercial contact between domestic producers and consumers.	x	x	(x)	(x)	(x)	x	x
7. Foreign trade: Direct contacts between foreigners and local firms or associations.	-	x	x	-	x	x	x
8. Creation of branch wide associations of firms.	-	x	x	x	-	x	x
9. Price formation mechanism revised	-	-	-	x	x	-	-

Key: x means adoption
- means rejection
(x) means not confirmed

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