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NATO CONFIDENTIAL
CORRIGENDUM to
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AC/127-D/128

COMMITTEE OF ECONOMIC ADVISERS

CORRIGENDUM

to

AC/127-D/128

(dated ~~5~~th July, 1963)(1)

Page 7, paragraph 9:

Replace whole paragraph by:

"Unlike the Soviet Union, where foreign trade is of minor importance to the country's economy, the European satellites depend on it to a considerable extent. According to calculations by some Western economists, foreign trade (in one direction) accounts for the following approximate proportions if compared with estimated GNP: Soviet Union - less than 3%, Poland - about 7%, Roumania - about 8%, Czechoslovakia - about 11%, Soviet Zone of Occupation of Germany - about 12% and Hungary - about 13%. The comparable figures for the United States are about 5%, and for the United Kingdom about 17%."

Page 8, paragraph 13, line 13:

After "Czechoslovakia" add " ..., though eager to rationalise production by producing a smaller variety of goods on a larger scale and therefore favouring COMECON division of labour policies, ..."

Page 8, paragraph 13, line 15:

Delete " - even ... expansion - "

Page 8, paragraph 14:

At the end of the paragraph add: "Polish fuel prices and Roumanian meat prices have also increased this year."

(1) These modifications are put forward by the Economics Directorate on the basis of United Kingdom comments.

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13. Though division of labour within the framework of COMECON is making progress in certain sectors, it is doubtful whether this organization will be able to push ahead with its policy of regional specialisation, as contradictory economic trends and national interests seem to be developing, the more backward countries being reluctant to slow down their pace towards full industrialisation, and the more advanced being increasingly concerned about expending additional resources to assist less-developed satellites. The attitude of COMECON member countries towards integration seems to vary considerably: Poland shows great initiative, though mostly of a self-promoting nature. The Soviet Zone of Occupation of Germany and, to a lesser extent, Bulgaria, seem to be most susceptible to Soviet pressure. Czechoslovakia is anxious to maintain the high living standard of her population - even to the detriment of economic expansion - and Hungary also has to make concessions to the consumers, whereas Roumania seems to disagree with most of COMECON's proposals and to oppose their implementation.

Living standards

14. Gains in the standard of living appear to have been small in most countries of the region. Average real wages in the non-agricultural sector either remained at the level of 1961 or declined, but family incomes may have increased somewhat as a result of expanded employment, and an increase in the scope and substance of social benefits. Though supplies of consumer goods have improved in volume in most countries, sales of some goods, especially textiles, slackened, because of bad quality and assortment. Shortages of meat and dairy products appeared in a number of countries. In Bulgaria, (as in the Soviet Union) prices for these goods have been sharply increased, with lesser increases in Hungary and the Soviet Zone of Occupation of Germany, where meat and butter have virtually been rationed under a "register with your supplier" system.

PART B

COUNTRY ANALYSIS

I. SOVIET ZONE OF OCCUPATION OF GERMANY

Population: 17.1 million
Area: 107,834 sq.km.

Introduction

1. The part of Germany now under Soviet rule had already been highly industrialised before World War II. With an area comprising 22% of the entire area of Germany, this region produced over 27% of all German gross industrial output. After the War, large-scale removal of industrial equipment, the dismantling of nearly all second tracks of the railway lines, military requisitioning and other reasons combined to shatter the economy. For a number of years, up to 20% of the entire total of goods and services produced went to the Soviet Union as reparations.

2. After a change in Soviet policy around 1955 allowing the economy to recover, the Soviet Zone of Occupation of Germany gradually became the economically most powerful of the European satellites and the most important trade partner of the Soviet Union accounting now for approximately 20% of the Soviet Union's total trade turnover. The Soviet Zone of Occupation of Germany is a highly specialised supplier of machinery and chemicals for the COMECON area.

Planning

3. The Seven-Year Plan 1959-1965 does not appear to have been too successful; the average annual increase targets for net material product of 6.8% and for industrial production 9.4% have not been achieved during the last three years. As early as last year, the Ulbricht régime felt obliged to revise the 1962 targets. Furthermore, at the end of 1962, the Seven-Year Plan had to be abandoned halfway, an intermediate plan for 1963 had to be worked out, new planning methods and index systems had to be introduced after the new Soviet pattern of quality, productivity, and profit, and a new Seven-Year Plan for the years 1964-1970 was announced. According to Ulbricht's statement at the Communist Party Congress in East Berlin on 15th January, 1963, the target of the new Seven-Year Plan includes an increase over the expected 1963 results of 35% in net material product, (annual average 4.4%) and of 60% in industrial production (annual average 7 to 7.1%).

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Net material product

4. The information on the 1962 economic plan results published by the Central State Administration for Statistics on 21st February, 1963, do not give any figure for the rate of increase of net material product (national income). According to official statements made on other occasions, the increase in 1962 may be estimated at 3%, i.e., slightly less than the 1961 results of 4.1%, but a little short of the revised target of 4.5%. The economic plan for 1963 provides for an increase in net material product of 5.5% over 1962.

Industrial production

5. According to the official statement, industrial production in 1962 reached 80.15 billion East Marks⁽¹⁾ rising by 6.1% over 1961 and thus fulfilling the modest revised 5.8% target set earlier in the year, but remaining much below the 9.4% target in the abandoned Seven-Year Plan. The production of capital goods is said to have risen by 6.9% and that of consumer goods by 3.3%. Mechanical engineering achieved the highest rate of growth with 9.1% followed by the chemical industry with 7.8% and electricity generation with 7.6%, whereas the output of power transformers and ship diesel engines were reported to have been below plan. Absolute production figures do not seem to have been released.

6. In 1963, gross industrial production is planned to increase by 6.4% to 84.9 billion East Marks, with the output of metallurgical goods rising by 13%, electrical equipment by 11%, precision and optical instruments by 10.9%, heavy industry by 10.6%, engineering by 10.5% and chemical industry by 8%. The share of industry in the gross social product is expected to increase from 66% in 1963 to 70% in 1970.

7. Productivity in 1962 increased by 8.4% - the highest increase figure in the Soviet bloc - against a 6% target in the revised plan. The planned increase is 7% for 1963, and 65% (annual average 7.4%) for the new Seven-Year Plan 1964-1970. The industrial labour force, already depleted by the mass exodus of 1948-1961, has declined further in 1962 as a consequence of low wartime birth rates. This decline will continue up to 1965 when the working population is estimated to constitute only 55% of the total population, as against the present 59-60%. The future rise of industrial output will wholly depend on an increase in productivity, as labour resources are fully extended and manpower shortages exist even in agriculture. In particular, women cannot be called upon to alleviate the situation, as their share in the total labour force is already about 46%, one of the highest in the Soviet bloc; there are also no reserves for an increase in working hours, which at the end of 1962 were 48 hours per week, with 4 "voluntary" hours annexed.

(1) See Annex for rates of exchange.

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Agriculture

8. The lack of any official figure for gross agricultural production in 1962 suggests that it did not fulfil expectations, although the harvest results are claimed to have "substantially" surpassed those of the bad previous year, with a grain harvest of 5.9 million tons (+ 23%) and a potato crop of 13.2 million tons (+ 58%). Production plans of grain, vegetable and other crops, are said to have been fulfilled "for the first time in a considerable period". On the other hand, livestock production, which weighs heavily on the total, appears to have declined. Lack of fodder as a result of the poor 1961 harvest, black market slaughtering, and "organizational faults" are being blamed. Pigs are said to have decreased by over 10% to a total of 8.0 million, and cattle by about 5% to 4.5 million head at the end of 1962. Meat and butter had to be rationed under a "register with your supplier" system and prices for foodstuffs rose in 1962 by an average of 13%.

9. The Ulbricht régime followed a very rigid collectivisation policy, raising the percentage of socialised farming from 40 to near on 100% within three months in Spring 1960. In 1962, many of the Type I co-operative farms constituting about $\frac{2}{3}$ of the total and doing only field work in common, have been transformed into Type II, where livestock is also collectively owned. The régime seems to have ceased applying pressure for the upgrading of co-operative farms in the Autumn of 1962.

10. No plan figures for 1963 are available, the plan only stating that the good 1962 harvest created "favourable conditions" for raising the level of livestock production, and that investment in agriculture would be 16% higher than in 1962. The new Seven-Year Plan 1964/1970 aims to increase the production per hectare of arable land of potatoes by 7%, of sugar beet by 18%, of oil-bearing crops by 50%, of meat by 28%, of milk by 34% and of eggs by 52%.

Investment

11. The amount of total investments in 1962 was given as 15.7 billion East Marks, or only 1.4% more than in 1961, the lowest increase for many years and far below the planned 6%. The fact that in the Soviet Zone of Occupation of Germany "accumulation" (meaning investment and state reserves) in 1962 constituted a much smaller proportion - an estimated 18% - of national income than in the other COMECON countries was sharply criticised on several occasions, last but not least by Khrushchev in his address to the East Berlin Communist Party Congress in January 1963. The plan for 1963 thus provides for 20.3% of net material product to be earmarked for "accumulation" representing an increase of 9% over 1962. According to the new Seven-Year Plan, capital investment is to increase from 16.0 billion East Marks in 1963 to 28 billion East Marks in 1970; i.e., by 66% (annual average 7.5%).

12. The number of centrally-administered investment projects has been reduced from 142 in 1961 to 68 in 1962, with preference given to those nearing completion. The most important were: the electric power plant at Lübbenau, the brown coal combine "Schwarze Pumpe", the chemical works "Buna-Werke", the oil processing works at Schwedt/Oder and the steel and rolling mill at Ries.

Foreign trade

13. According to the plan fulfilment report, foreign trade turnover in 1962, including that with the Federal Republic of Germany and West Berlin, (1) amounted to the equivalent of 19.9 billion East Marks, an increase of 6% over 1961, as planned. Total imports rose, however, by 7%, thus exceeding exports by 1 billion East Marks, mainly because of additional imports of agricultural products, the import of meat alone having risen by 88%. This deficit is expected to be made up during the first half of 1963. The increase figure for exports in 1963 has therefore been scheduled to be 15.4%, with imports remaining at the 1962 level. Besides a shortage of meat and meat products, a lack of high quality industrial goods suitable for export (2) were made responsible for the unfavourable trade balance.

14. The concentration of East German trade on other COMECON countries was intensified in 1962, with this area accounting for approximately 74% of the total trade turnover and the Soviet Union alone for approximately 45%. Recent substantial credits (a five-year credit in March 1962, valued at 1.3 billion East Marks) will increase dependance on the Soviet bloc still further. Western Europe's total trade with the Soviet Zone of Occupation of Germany barely increased in 1962, accounting for less than 20% of the total. Trade with the Federal Republic of Germany has declined slightly, but seems still to have equalled that with the rest of the region, and has remained the largest single bilateral flow in the East/West trade. (1)

15. The merchant fleet, during 1962, was reported by Western sources to have been increased by 22 ships, or 150,000 tons, bringing the total to 82 ships, or 500,000 tons. Freight carried in 1962 is said to have reached 6.8 million tons, an increase of 1.5 million tons over the previous year.

Conclusions

16. The prospects for a rise of 25% in the standard of living provided for by the new Seven-Year Plan do not seem bright, if one is to believe the many statements urging an increase in

(1) Trade between the Soviet Zone of Occupation and the Federal Republic of Germany is not considered to be foreign trade but domestic trade.

(2) Stocks of unsaleable goods held by the foreign trade agencies were valued at the end of 1962 at 145 million East Marks.

"accumulation" to the detriment of "consumption". It might have been expected that the Soviet Union should exert pressure for such a rigorous policy considering that the Soviet Zone of Occupation of Germany, although enjoying a higher standard of living than the Soviet Union itself, still depends on substantial Soviet credits. There might, however, be another reason for both the credits and the pressure for higher investments. It has been reported that the economic difficulties of the Soviet Zone of Occupation of Germany result largely from the fact that important industries have been meshed with Soviet (and Czechoslovakian) industries for the production of elements of rocket and nuclear weapon systems. Should this be true, it would be a further reason for the Soviet Zone of Occupation of Germany to seek, as she did in 1962, industrial machinery and equipment in the West.

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II. CZECHOSLOVAKIA

Population: 13.9 million
Area: 127,900 sq.km.

Introduction

1. Next to the Soviet Zone of Occupation of Germany, Czechoslovakia is the most industrialised country within the Soviet Bloc. It has the highest living standard within that area and is claimed to occupy one of the first places in the world for the level of nutrition of the population - ~~7,100 calories per head per day, more than in Germany, France or Italy. It has a claimed meat consumption of 61 kg. per head a year compared with 22 kg. in the Soviet Union and 50 kg. in the United Kingdom.~~ Within COMECON, Czechoslovakia plays an important role as an exporter of machinery and equipment, and is a major supplier of credits for developing countries. Among the bloc countries, Czechoslovakia is the only full member of GATT - Poland being an associate member - and both countries are signatories of the Chicago Convention on Civil Aviation.

Planning

2. The State Planning Committee announced on 14th August, 1962 that the 1961/65 Five-Year Plan, providing for annual average increases of 7.3% in net material product (national income), of 9.3% in industry and 7% in agriculture, was to be abandoned, as the Czech economy had been trying to develop in too many fields at once, and the correct proportion between agricultural and industrial production had not been maintained. Already early last year, the original 1962 targets had to be revised. The Czech plan for 1963 is a transitional one-year plan designed to establish a basis for a new Seven-Year Plan beginning in 1964. The lowest growth rates in Czech planning history are contemplated: gross industrial production is to increase 1%, and labour productivity 0.7% (agriculture an unrealistic 9.5%). Targets for the new Seven-Year Plan, 1964/1970, do not appear to have been released as yet.

Net material product

3. The 1962 Plan Fulfilment Report was published on 1st February, 1963. The material available does not give the exact figure for net material product (national income), it only says that although production was below plan, the national economy registered further growth in 1962. A comparison between the rather good results in industry and the bad results in agriculture makes an estimated increase of national income of approximately 1% likely. The Report criticised shortcomings in management and work organization and an excessive and economically unjustified growth of stocks.

Industry

4. In industry, a rate of increase of 9% had been kept up, and often surpassed, for a number of years until the end of 1961, the first year since 1953 that the Czechoslovakian economy could not reach the industrial output targets. In 1962, the relatively small increase of 6.2% increase over 1961 as against a 7.5% target in the revised plan points to the fact that the pace of industrial development is slowing down considerably, a feature not uncommon in highly industrialised countries. The following branches have slightly over-fulfilled their plan - fuel (+ 5%), chemicals (+ 10.4%), and consumer goods (+ 5.5%); the results achieved by power (+ 7.5%), metallurgy and ore mining (+ 5.1%), heavy engineering (+ 8.1%) and building material (+ 8.3%) fell short of their targets. Building results were extremely poor, with an increase of "less than 1%". Labour productivity increased only 3.2% against a planned 6% which, except for 1954, was the lowest growth rate since 1948.

5. For the "year of reorganization and preparation", 1963, the planners set the modest target for industrial production of only 1.0%, forecasting a total output of 27.8 million tons of hard coal (1962: 27.2 million tons), 8 million tons of steel, 29,000 tractors, 54,000 cars (1962: 64,300), 260,000 television sets and 220,000 refrigerators. The plan for the chemical industry foresees an increase of 5.4% in gross output, the major part of it being accounted for by an expansion of the processing of crude oil and the production of artificial fertilizers. The main feature of the new Seven-Year Plan 1964/1970 will be an improvement in the technological and organizational level of the engineering industry, whose output is to rise by 8% to 10% annually (the only figure so far available for this period).

Agriculture

6. The plan for agricultural production in 1962 was fulfilled only by 88%, (crop production 84% and livestock production 93%), despite a 6.7 billion Kcs(1) investment in this sector in 1962 and 7.3 billion Kcs in 1961. In admitting that agricultural production was 6% less than in 1961, Party Leader Novotny termed 1962 as "one of the worst years" for Czech agriculture. The wheat crop is estimated to have been 1.8 million tons (+ 10%), with vegetables down by 16% and livestock production by 7%. Milk production was well below plan by 6.8%. In 1963, crop and livestock production are scheduled for increases of 18.4% and 1.3% respectively over 1962. The share of investments allocated to agriculture in 1963 is, however, to remain approximately that allocated in 1962. Moreover, agricultural co-operatives will receive fewer machines than last year; a shift in agricultural investment has been envisaged away from machinery to soil improvement intended to increase yields.

(1) See Annex for rates of exchange.

7. According to an official Czechoslovakian statement, bad results in agriculture presented a "serious problem for the entire national economy", as the engineering industry had to produce heavy machinery for export to pay for agricultural imports, to the detriment of the orders it was supposed to be fulfilling for industry at home. The XIIth Party Congress decided, therefore, in December 1962 that by 1970 the rate of increase of agricultural production should reach that of industrial production. Prospects for this are, however, rather poor considering that agriculture has only increased by 1% over the last five years, and that the absolute level of production is approximately the same as in 1936. Since even this result has been obtained largely through increased livestock production, it is difficult to see how the planned 18.4% increase in crop production could be realised. The régime seems intent on continuing its doctrinaire policies in agriculture and aspires to improve the situation mainly through administrative means.

Investment

8. State capital investment appears to have been particularly poor in 1962, with an estimated decrease of 1% against a target of 8%. Serious difficulties in the economy were said to have been caused by changing the final dates for putting factories into operation. Furthermore, planners had apparently been forcing the pace of investment both by starting too many projects and by demanding too much haste in their implementation. A further decrease of investment by 6% has been announced for 1963, where 197 of the most urgent projects, valued at Kcs 16.8 billion, are expected to be completed. Only 85 new projects will be started in 1963, worth Kcs 5.3 billion.

9. One of Czechoslovakia's most important development projects is the new oil refinery of Slovnaft, near Bratislava, a capacious Danube port 50 km. from Vienna; this refinery uses Soviet crude oil supplied by the Czechoslovakian branch of the "Friendship" pipeline which was completed on 22nd February, 1962. During the first year of operation, 2.65 million tons of Soviet petroleum are said to have been conveyed to Bratislava. Another important project is the East Slovak Iron Works of Kosice, which, after completion, is expected to produce 3 million tons of finished steel products a year. It will rely wholly on Soviet iron ore from Krivoi Rog and coal from Ostrava in Moravian Silesia, at present Czechoslovakia's only really big steel centre.

Foreign trade

10. Czechoslovakia's foreign trade in 1962 increased by only 4.7% as against 8.7% in 1961, and an annual average of 8% scheduled by the Five-Year Plan. According to a CTK broadcast of 14th February, 1963, foreign trade turnover exceeded Kcs 31.2 billion, of which nearly 9.0 billion (29.0%) was transacted with

"capitalist" countries. Fuel and raw materials account for more than 50% and foodstuffs for more than 20% of Czechoslovakia's imports with machines and equipment ranking first on the export list (nearly 50%).

11. A great deal of Czechoslovakia's current difficulties are being attributed to the fact that this country, after the Soviet Union, is the largest supplier of foreign credits among the European satellites; per capita, Czechoslovakia is said to have spent three times more than the Soviet Union on aid to developing countries. Another problem seems to have been the disruption of Czechoslovakia's trade with China, once her fifth largest trading partner. In 1961, Czechoslovakian/Chinese trade had fallen by about 70% compared with 1960, and late in 1962 foreign trade with China was reported to have stopped completely.

Conclusions

12. The abandoning of the current very elaborate Five-Year Plan after only two years points to serious difficulties in Czechoslovakia's economy. With the degree of development now reached, planning may have become more difficult than in a less advanced and less complex economy. As foreign trade is playing an important role in the Czech economy, the loss of a client like Communist China may have had some effect on economic development, especially as Czechoslovakia must at the same time adjust herself to increased specialisation with COMECON. Another reason for Czechoslovakia's current difficulties might be her integration, together with the Soviet Zone of Occupation of Germany, in the Soviet armaments programme (see above, I, 16). All these facts make it difficult for the régime to maintain the high living standard of the population, though it appears that great efforts have been made in this direction since the upheavals in Hungary and Poland in 1956.

III. POLAND

Population: 30.5 million
Area: 311,700 sq.km.

Introduction

1. Poland is the largest of the European satellites in territory and population and, after the upheaval in 1956 and Gomulka's return to power, the one considered by many Western observers to be the most "liberal" of that area, as individual farmers still own 87% of cultivated lands. Though industrialisation is advancing at a considerable pace, agriculture still plays a major role in the economy, with about 25% of net material product (national income) being derived from this sector and over 50% of the population still living in rural areas. Within COMECON, Poland is an important supplier of hard coal, chemical plant and ships. The country is an associate member of GATT and a signatory of the Chicago Convention on Civil Aviation.

Planning

2. In 1962, Poland met with difficulties similar to those in the Soviet Zone of Occupation of Germany and Czechoslovakia, resulting in a lowering of the production aims for 1963, in comparison with the annual average increase targets provided for in the Five-Year Plan 1961/1965 of 7% in net material product, 8.7% in industrial and 4.1% in agricultural production.

Net material product

3. According to the Polish plan, fulfilment report for 1962, published on 20th February, 1963, net material product (national income) amounted to 427 billion zloty⁽¹⁾, an increase of only 2.5% as against a planned growth of 7%, and an actual increase in the preceding year of 8%. National income for 1963 is scheduled to amount to 446 million zloty, an increase over 1962 of 5.2%.

Industrial production

4. In 1962, gross industrial production plans were fulfilled 100.9% - an 8.7% increase over 1961. The following production increases were claimed: pharmaceuticals, 35%; oil refining, 31%; chemicals, 16%; machine industry, 15.6%; power, 10%; textiles, clothing and footwear, 6.2%; building materials, 5.5% and fuel, 4.1%. Results in a number of important branches, such as steel, freight cars, trucks, rail passenger cars, rolled materials, turbo-generators, iron and zinc ore failed to reach the targets. Labour productivity rose 4.1% instead of a planned 5.5%; although the housing construction plan was reportedly fulfilled, a shortfall occurred in the capital construction

(1) See Annex for rate of exchange.

plan - 369 of 390 planned projects were completed. Output of hard coal totalled 109.6 million tons, an increase over 1961 of 2.8%. Production figures of major commodities, not given in the Annex, include the following: sea-going vessels (290,000 dead-weight tons), metal cutting machine tools (24,800 units), tractors (12,625; i.e., plus 19.6%), passenger cars (16,100), lorries (22,400), sulphur (209,000 tons) and plastics (82,500 tons; i.e., plus 18.8%).

5. The 1963 industrial plan foresees an increase of only 5% over 1962, spread unevenly among the various branches. The output of producer goods is to increase by 6.6% and that of consumer goods by 2.6%. Above average increases are planned for chemical machinery and plant (35%), tractors (33%), lorries and buses (22%), electrical machines and equipment - especially power turbines (13.7%), engineering and metal working output (11.7%), means of transport (11%), chemicals (9.4%), metallurgical products (8.6%), and electric power (8.5%). Steel production is to attain 8 million tons, rolled steel 5.4 million tons; shipbuilding industry is expected to show an increase over 1962 of 22%, producing 52 ships with over 350,000 deadweight tons.

6. In contrast to the situation in the Soviet Zone of Occupation of Germany and Czechoslovakia, vast labour resources are still available in Poland's agriculture. At the Trade Union Congress in November 1962, Gomulka stated that while employment in the whole of the socialised economy had been planned to increase by 263,000 persons in the years 1961/1962, the actual figure was almost twice as large. This unexpected increase in employment put a heavy strain on the wage fund and prevented wages from rising as planned. Gomulka emphasised that the industrial output targets should rather be achieved through better organization of work and higher productivity, which in 1962 seems to have fallen short of the 5.6% increase target.

Agriculture

7. Of Polish farmland, 87% is privately owned by individual peasants, 12% by 5,300 state farms and only 1% by collective farms, the number of which has fallen from more than 10,000 before Gomulka's reform in 1956 to a mere 1,600 in 1962. There is no indication that Gomulka's declared intention to avoid any form of forced collectivisation will be discontinued. The earmarking of 80% to 90% of agricultural investments from state funds in 1963/1965 for the development of state farms and the decision to allocate unused land to state farms, whereas hitherto it had mostly gone to private farmers, seems, however, to be indicative of a tendency to stress the importance of the public sector.

8. Adverse weather conditions are blamed for a drop in the 1962 agricultural production of 7.8% from the exceptionally good results in 1961. Total crop production has decreased by 13%, with grain output down 2 million tons (- 10%), potatoes 7.5 million

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tons (-16%), and sugar beet 1.3 million tons (-10%). The harvesting area decreased by 80,000 h. Livestock production has risen by 4.6% - pigs alone only 1.4% - over the high 1961 level (for production figures obtained in 1962, see Annex). The rapid growth of livestock and the poor grain harvest have made the Polish authorities anxious lest increasing imports of fodder grain might draw heavily on the foreign exchange reserves badly needed for imports of industrial goods.

9. In 1963 agricultural production is planned to increase by 5.8%, with a further increase in cattle herds, of 2.5%, the number of pigs remaining at about the same level as in 1962. Crop production is expected to increase by 11.6% over the very bad results in 1962. For the years 1963/1965 an increase in the total sown area from 1.4 to 2 million hectares is advocated to make Poland independent of grain imports from the West. Investments in agriculture, which rose in 1962 by 7% over 1961, will be substantially increased in 1963, by making available funds originally planned for industry. The share of total investment allocated to agriculture will attain 22.8%. In contrast to most other European satellites, the Polish 1963 agricultural plan does not seem to be unrealistic.

Investment

10. According to the plan fulfilment report for 1962, state capital investment increased by 13.4%, reaching 101.1 billion zloty (in current prices). The main investment projects included the laying of 269 km. of oil pipeline, the completion of the first construction stage of a dry-dock at Gdynia and the putting into operation of new turbo-generators with a capacity of 1,102 Mw. Work at the huge new copper field at Glogow/Silesia, containing estimated reserves of 10 million tons of pure metal is to be continued; production is to start in 1966/1968, with an annual capacity of 100,000 tons of refined copper. Housing construction by state and co-operative enterprises provided 270,800 rooms, an increase of 6.4%.

11. In 1963 net investments are planned to increase by 8.3%, to a total of 125.6 billion zloty, priority being given to 18 mining and power projects, 16 projects in heavy industry and 17 in the chemical industry, which alone will receive 10.2 billion zloty, compared with 8.3 billion zloty in 1962 and 6.7 billion zloty in 1961. The share of investments allocated to light industry, water economy, municipal economy, transportation, social welfare and health services will be restricted.

Foreign trade

12. Polish foreign trade continued to develop in 1962 at about the same rate as in previous years, reaching an increase over 1961 of 10.6% and a turnover of 14.12 billion foreign

currency zlotys (in current prices). Exports increased by 9.5% to 6.58 billion zloty, and imports by 11.8%, to 7.54 billion zloty. The amount of the imbalance was reported to be approximately \$70 million.

13. The Soviet Union is Poland's most important trading partner, with a share of approximately 30% of the turnover, supplying half of all raw materials consumed in Polish industry. The share of "capitalist" countries in Poland's foreign trade in 1962 was nearly 40%, a fact sharply criticised by Gomulka at the Trade Union Congress on 26th November, 1962, where he said: "We want to, and we should, trade with capitalist countries, but we must not fall into dependence upon them, because in that case the dynamics of capitalist markets, as well as the policy of trade discrimination against the socialist states conducted by the capitalist countries, could undermine our plans and impede the development of our economy."

14. The 1963 plan expects an increase in Poland's foreign trade turnover of 4.5%, exports increasing by 6% and imports by no more than 3.2%, a rather unrealistic relationship not achieved in Polish foreign trade for many years. Exports of food-stuffs, which account for over 50% of Poland's deliveries to "capitalist" countries, are to be reduced sharply, while the export of engineering goods to the West is planned to grow by 30% (present share: 1%). The attempt to enlarge the proportion of engineering exports will certainly not preclude active efforts to retain raw material and agricultural markets. Imports of cereals which amounted to 2.1 million tons in 1960 and 2.5 million tons in both 1961 and 1962 will be increased to 2.85 million tons in 1963, thus reaching a total of approximately 10 million tons, valued at 2.5 billion foreign exchange zloty within four years.

15. The tonnage of sea-going merchant ships under the Polish flag in 1962 was approximately 1.1 million deadweight tons. Polish ports handled 24.6 million tons of goods.

Conclusions

16. The Gomulka régime considers the slackening in the rate of economic development to be of a "passing character", and hopes to make good the lowered increases planned for 1963 by more favourable results in 1964. There can, however, be no doubt that the targets of the Five-Year Plan 1961/1965 will not be attained in many sectors. Little or no improvement can be expected in per capita consumption and living standards. Although the régime has promised improvement in the supplies of such items as meat, wheat, flour and most building materials, planned 1963 production figures do not reach those planned for 1962. Poland's economy, as well as that of the Soviet Zone of Occupation of Germany and Czechoslovakia, has now reached a stage of industrial development at which planning becomes more and more complicated and the rates of increase are declining to a level close to that of Western industrialised countries.

IV. ROUMANIA

Population: 18.6 million
Area: 237,500 sq.km.

Introduction

1. Roumania is still an agricultural country, with nearly 70% of its inhabitants living in rural areas, and with over 30% of net material product (national income) being derived from agricultural production. Full collectivisation was reached in spring 1962, four years ahead of schedule. Industrialisation is being pushed forward and Roumanian industry, if one can trust the official statistics, has one of the highest growth rates in Europe. The country has large natural resources, above all crude oil and natural gas, but also iron, manganese ore, bauxite and timber. Roumania is reported to be reluctant to play the role of a supplier of raw materials within COMECON and to set its high industrialisation targets aside for better co-operation within COMECON. Having received considerably less direct economic aid from the Soviet Union than the other European satellites except Czechoslovakia, Roumania seems to be playing a relatively independent role in that organization.

Planning

2. The current Six-Year Plan provides for a much faster pace of development of the economy, and of industry and agriculture in particular, during the years 1960-1965, than in the preceding six years. The planned rise of national income by 70-80% (annual average 9.8%) is one of the highest foreseen for any country of the area and based mainly on a rather optimistic estimate of the expansion of the labour force, a planned doubling of investments, and a predicted increase in gross agricultural production of no less than 50% (annual average 7%).

Net material product

3. According to a communiqué of the Central Directorate of Statistics published on 1st February, 1963, net material product (national income) rose by only 7% in 1962, whereas the Six-Year Plan 1960-1965 forecasts an annual increase rate of 9.3% which has so far been surpassed only in 1961 (10%). There is no plan target available for 1963, Gheorghiu-Dej stating on 29th December, 1962, that national income would "increase".

Industry

4. The 1962 plan for gross industrial production has been over-fulfilled, resulting in a total increase in 1962 of 14.7% against a target of 13.5% and a rise of 15.6% between 1960 and

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1961. This is also well above the average annual increase rate of 13% planned for the 1960-1965 period (see annexed table). Output of means of production went up by 17.5% and that of consumer goods by 10.2%. Especially high increase rates were achieved in pig iron production (+ 37%), the chemical industry (+ 24%), electric power (+ 23%), oil processing (+ 21.5%), engineering (+ 19%), and building materials (+ 18.5%) (for absolute production figures of important commodities see annex). The communiqué puts a special stress on the increased quality of the production. Labour productivity rose 6.6% only, instead of a planned 8.5%.

5. An important branch of Roumania's economy is the crude oil production, which was already highly developed before the last war. It appears that the "co-ordination" with the Soviet Union worked much to the detriment of Roumania: whereas Roumanian pre-war oil production was already over 8 million tons a year, production by 1962 had only increased by about 40% to reach 11.86 million tons; on the other hand, Soviet oil production which was only 31 million tons before the war has increased six fold, to 186 million tons in 1962 and is planned to reach 205 million tons in 1963.

6. The 1963 plan provides for an increase of "more than 12%" in industrial production over the 1962 results. In the branches producing means of production, the expected increase is 13.3%, in those producing consumer goods 10%. More important increases are expected for the output of power generation (+ 21%), chemicals (+ 26%) and building materials (+ 17%). To achieve these targets, labour productivity in industry must increase by 9.3%, a target which had also been planned but not achieved in 1962. In view of past performance in industry and the rather moderate increase planned for 1963, the industrial targets for this year should, however, pose no great difficulties. Chemicals and engineering head the production targets of the Six-Year Plan, with annual average increases of 22% and 14%, which were both surpassed in 1962 (see 4. above). The long-term perspective plan for industrial development, 1960-1975, provides for gross industrial production to increase 6 fold, chemistry 14 fold and engineering 7 fold over the 1959 results.

Agriculture

7. The communiqué says very little on the 1962 results in agriculture. The grain harvest is reported to have been 8.5% lower than in 1961, apparently in consequence of a very poor maize crop, whereas the wheat crop is said to have been 9% higher. Roumanian crop yields have always been particularly poor and even lower than those in Bulgaria and Albania. Livestock numbers in 1962 remained approximately at the level of 1961 (see Annex). Investment in agriculture in 1962 increased a mere 1% over 1961, and the share of total investments allocated to agriculture decreased from 17% in 1961 to 15% in 1962.

8. 1963 agricultural production is scheduled to rise 17% - with crop and livestock production to increase 20.9% and 10.2% respectively. Agricultural investments are to reach the level originally planned for 1965. The 1963 agricultural plan says that the steady progress of crop and animal production is one of the principal conditions for the development of the entire economy, that maize cultivation will be largely extended and that all state farms shall specialise; some of them will gradually be converted into large maize production units. The plan envisages the production of almost 1 million tons of meat, more than 30 million hectolitres of milk and 28,000 tons of wool. Agriculture will receive 55% more chemical fertilisers than in 1962.

9. One can hardly see how agricultural production can increase by 50% - requiring an annual average increase of 7% - in the course of the Six-Year Plan 1960-1965, as it was below the level of 1959 in the first three years of the plan. There are serious doubts whether the difficulties in agriculture, now 93.4% socialised, can be overcome by the thorough reforms of management introduced after the Soviet pattern in April, 1962.

Investment

10. State capital investment is running at a rate of up to 25% of national income. The total volume in 1962 amounted to 31.5 billion lei, an increase of 12% on 1961. Industrial investment rose by 20% to more than 17 billion lei, or 55% of the total. Of this, power and fuel industry received 33.8%, metallurgy and engineering 27.6%, and chemical, paper and cellulose industry 15.4%. 4.9 billion lei or 15.9% of the total were allotted to agriculture, against a planned 4.7 billion lei, and 2.8 billion lei to transport.

11. In 1963, investments from state funds are expected to increase by 12% over 1962, and will amount to 34.6 billion lei. The main investment project is the new iron and steel combine at Galati, working on coke and iron ore supplied by the Soviet Union and designed to produce 4 million tons of steel and 5-600,000 tons of rolled plates a year by 1965. (The plant which, it is claimed, will be the largest of its kind in the world, is reported to be constructed by an Anglo-French Consortium). Other projects now being carried out include plants for the production of car tyres, paper, cellulose, and building materials.

Foreign trade

12. Until recently, foreign trade had not played an important role in Roumania's economy, her per capita volume of foreign trade turnover being smaller than that of any other European satellite. Recently, however, the country has been stepping up its commercial relations with both the West and the East and appears now to have entered a phase of rapid increase

in foreign trade in relation to national income. The volume of Roumanian foreign trade increased by 9% in 1962 and, though falling considerably short of the 15% increase envisaged, has surpassed the 1959 level by over 70%. The 1963 plan provides for an increase of 5.3% over 1962.

13. Since 1958, there has been some reorientation of Roumania's foreign trade towards Western Europe, whose share of Roumanian imports rose from 17% to 29% - the highest figure for any Eastern European country - while the share of Western Europe in Roumania's exports rose from 19% to 25%, a figure among Soviet satellites only exceeded by Poland. The most remarkable aspect of Roumanian imports from Western Europe is the relatively large volume of orders for complete factory plants placed in Britain, France and the Federal Republic of Germany.

Conclusions

14. Some western observers believe that if the present rapid upward trend of industry can be maintained, Roumania may one day become the economically strongest of the Soviet satellites. For the moment, the task of the planners is made easier by the comparatively primitive structure of the country's economy. A high rate of investment has been achieved by maintaining the living standard of the masses at a very low level. As Roumania becomes more industrialised and will have to pay more attention to consumer needs, the present pace of economic growth is bound to slow down.

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V. HUNGARY

Population: 10.07 billion
Area: 93,000 sq.km.

Introduction

1. Of Hungary's population of just over ten million inhabitants, about 60% are living in rural areas, and over 25% of net material product (national income) is derived from agricultural production. After the upheaval in 1956, which did great damage to her economy, Hungary received substantial credits from the Soviet Union and other Communist countries, which, together with a cautious collectivisation policy, allowed her a speedy recovery. Next to Poland, Hungary is believed to have become the most "liberal" of the satellite régimes in Eastern Europe. Under COMECON's division of labour policies, Hungary was picked to be one of the Soviet bloc's chief aluminium producers, because of her high quality bauxite.

Planning

2. After a successful Three-Year Plan (1958-1960), Hungary synchronised her medium-range planning with that of the other COMECON countries by introducing a Five-Year Plan (1961-1965) under which net material product is to rise annually by 6%, industrial production by 8.3% and agricultural production by 5.5%.

Net material product

3. In the fulfilment report of the 1962 economic plan, published in "Nepzabadsag" of 20th January, 1963, the Hungarian Central Statistical Office announced an increase in net material product (national income) of 5% over 1961, the lowest for years and well below the short and medium-range targets of 9% and 6% (see Annex). Calculated from the 1961 figure (141.3 billion forint in prices based on 1957) this would give an absolute figure of 148.4 billion forint for 1962. For 1963, a growth of only 3.1% has been predicted.

Industry

4. Industrial production exceeded that of 1961 by 9%, against a target of 8%, a result due mainly to a 10% increase in the output of heavy industry, whereas the output of the other branches rose as follows: mining 4%; light industry 5%; food industry 8%; and machine industry 11%. The 16% increase of chemical output (pharmaceutical 35%; fertilisers 18%) points to a structural transformation of Hungarian industry according to COMECON proposals. So do the results of some industrial food branches such as canning (+12%), the meat industry (+11%) and poultry processing (+10%).

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5. According to the 1963 plan, gross industrial production is expected to increase by another 8%, with above average increase targets in the chemical (+ 16%) and in the engineering (+ 9.5%) industries. About two-thirds of the growth in industrial production are to come from higher productivity. Some of the more important production figures planned for 1965 are given in the Annex. Others include bauxite 260,000 tons (1960: 216,000 tons) and aluminium production 57,000 tons (1960: 51,000 tons); the chemical industry is to increase by no less than 75% over 1960. The results obtained during the first two years of the current Five-Year Plan make it not unlikely that most of the industrial production targets will be attained.

Agriculture

6. Adverse weather was blamed for the failure of the agriculture to meet the 1962 plan targets, but production allegedly "slightly exceeded" 1961 levels. The output of maize, potatoes, sugar beet and vegetables was reported to be higher, while that of grapes and other fruit was much lower than in 1961. Production results in livestock were more disappointing than those for crops: the number of cattle and pigs dropped below last year's levels and the output of eggs and milk was 9% and 6% respectively below targets.

7. After the very bad results of the two previous years, which had shown a decrease in absolute production as against the rather successful year of 1959, the 1962 results must cause Hungarian planners much concern and it appears utterly unrealistic to expect that the goal set for 1963 - an increase of 12-14% over 1962 - can be attained. State purchases in 1962 surpassed the 1961 results by 5%, attaining 22 milliard forint, but did not reach the planned target of a 10% increase. Food prices are said to have been much higher in 1962 than in 1961, with a rise in the prices of fruit and vegetables of 24%. However, improved methods of distribution may to some extent have compensated for this.

Investment

8. Although state capital investment in 1962 was claimed to be 8% higher than in 1961, planned levels were not met. Of the total sum of approximately 35.2 billion forint⁽¹⁾, 44% went to industry and only 17% to agriculture, about the same shares as in 1961. The 1963 plan envisages investments amounting to 39.4 billion forint, representing an increase of 14% over the 1962 figure.

Foreign trade

9. According to the report, the 1962 foreign trade turnover exceeded that of 1961 by 10%. With a 1961 turnover of 24.1 billion forint, the absolute figure for 1962 can be estimated to be approximately 26.5 billion forint. Foreign trade has thus

(1) See Annex for rate of exchange.

doubled since 1957. Exports exceeded planned targets, while imports were somewhat lower than planned, resulting in a better-than-planned balance of trade. However, foreign trade showed a negative balance amounting to \$48 million. This will make it difficult for Hungary to start paying back the credits received from other COMECON countries in 1957 for her recovery programme. During 1962, trade with Communist countries increased by 10%, that with Western countries by 4% and that with developing countries by 21%, though it should be noted that the latter remains very small in absolute terms. The share of other Communist countries in Hungary's overall trade was 71.6%. Another 10% foreign trade increase is predicted - and not unlikely - for 1963. According to the plan, trade with Western countries is intended to increase by 13%.

Conclusions

10. The standard of living showed little improvement: real wages of workers and employees increased by 1%, whereas peasant consumption remained at 1961 levels. Food prices were higher than in 1961, offsetting any real advances. This is certainly due to a great extent to the bad results in agriculture. But Western observers also believe that much of the considerable growth of industry, and especially heavy industry, has been used for military spending rather than for raising living standards of the population.

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VI: BULGARIA

Population: 8.0 million
Area: 110,900 sq.km.

Introduction

1. Bulgaria is, apart from Albania, the least developed of all the European satellites, with about 65% of the population still living in rural areas. However, her industrial progress has been remarkable. The shares of industry and agriculture in the net material product are claimed to be about 45% and 30% against a pre-war distribution of 20% and 70%, with gross industrial production now being allegedly thirteen times that of 1939. Within COMECON, Bulgaria is the main supplier of tobacco and grapes and has recently specialised in electric equipment and lathes.

Planning

2. Planning seems to be handled rather inconsistently in Bulgaria. After the failure of the "great leap forward", proclaimed in imitation of Communist China in 1958 and putting the main stress of agriculture, a less ambitious Five-Year Plan covering the years 1961/1965 was adopted in May 1962. According to this plan, net material product is to increase by an annual average of 9.9%, industrial production by 12% and agricultural production by 8.3%. Bulgaria has so far been the only satellite country to establish a Twenty-Year Plan for the period 1961/1980 after the Soviet pattern. According to this, the following increases are forecast: net material product 500%, industrial production 700% and agricultural production 200%; chemical production is to increase 27-fold, machine industry 17-fold and construction 12-fold.

Net material product

3. The Bulgarian Central Statistical Department issued a statement on 26th January, 1963 claiming that the Bulgarian economy had continued to grow in 1962 at an accelerated pace. The few figures officially released do not, however, fully support this optimistic appraisal. Though the statement seems to be correct as far as industrial production is concerned, the results in agriculture, still a decisive factor in Bulgarian economy, and an industrial construction give rise to doubts. At a rough estimate, net material product may have risen by 6% in 1962 as against a target of 14%. With results in 1961 of 2.9% and in 1962 of 6%, there is little likelihood that the Five-Year Plan target of an annual increase of 9.9% can be achieved.

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Industry

4. The claimed increase in industrial production of 11.1% was larger than had been planned (9.9%). Heavy industry continued to develop at a more rapid pace than overall industrial production; ferrous metallurgy increased 35.7%, non-ferrous metallurgy 18% and machine building 23%. Construction exceeded plans, while transport, electric and thermal power failed to meet their targets.

5. The 1963 plan forecasts a further rise of 10% in gross industrial production. This seems to be a reasonable target, but falls short of the average annual rate of increase of 12% necessary to reach the 1965 goal of "not less than 70%". As is shown in the annexed table, the annual increases so far achieved or planned have never reached this level.

Agriculture

6. Adverse weather was blamed for agricultural failures in both crop and livestock production. Gross agricultural production rose but 2.3% over 1961 - which was a particularly poor year - compared with a planned growth of 12.6%. Higher yields were claimed for wheat, maize, sunflower seed, oriental tobacco, apples and grapes, while yields of beans, potatoes and some fruit were lower than in 1961. Livestock production was reported to be 2.8% lower than in 1961, mainly because of fodder shortages.

7. As an incentive to collective farmers, and to overcome the acute food crises, the Bulgarian Government, on 30th July, 1962, followed the Soviet example by increasing food prices as follows: meat by 23.7%, meat products by 25.4%, poultry by 27.2%, dairy produce by 31.8% and eggs by 11.5%. Potatoes, onions, beans and rice were rationed. Reforms providing for better management price reductions for industrial goods used in agriculture, better co-ordination and higher wages were announced simultaneously. Bulgaria also became the first country within the Soviet bloc to grant minimum wages to collective farmers.

8. The 1963 plan calls for an increase in gross agricultural production of 17.1%, with grain production increasing by 17%, fodder grain 40% and sugar beet 44%. The number of cattle is to rise 9.4%, pigs 15.5% and poultry 6%. The outlook for meeting agricultural plans for either 1963 or the Five-Year Plan appears bleak. Bulgaria has made no progress during the past two years towards meeting the average annual increase of 8.3% called for under the 1961/1965 plan in gross agricultural production. The results so far achieved must disappoint the leaders of a country that was once proud of being the first after the Soviet Union to have achieved full collectivisation.

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Investment

9. Bulgaria is the satellite country with the highest rate of investment as compared to net material product (close to 30%). Whereas most other countries of the group make concessions from time to time to stimulate light industry and the production of consumer goods, Bulgaria has always followed the "hard" line of maintaining absolute priority for heavy industry. The plan providing for an increase in state capital investment for 1962 of 11% over 1961 was fulfilled only to the extent of 91.4%. With a target of 891.6 million leva this would mean a sum of 816 million leva or an increase over 1961 of 7.5%. A new feature of the 1962 investment programme was the concentration on a few important giant undertakings, of which the Kremikovtzi combine, with reserves of 250 million tons of iron ore and an eventual steel capacity of 3 million tons, is the most important.

10. For 1963, a modest 5% rise in state capital investment is foreseen. The major share will continue to be allocated to heavy industry. Almost 85% of investments in heavy industry will be for the power, metallurgical, chemical and engineering branches. However, the 1963 plan provides for a drop in the percentage of total investments earmarked for industry from 70% in 1962 to 60% in 1963. On the other hand, investment in agriculture is to rise 15%: from 7% of the total investments in 1962 to 12% in 1963.

Foreign trade

11. Bulgarian foreign trade has continued to expand in 1962, leading, however, to an unfavourable balance. According to the statement, the plan for exports was implemented by 102.4% and the plan for imports by 106.7%. As the 1962 plan called for an increase of 15%, the actual increase can be calculated to have been 18%, bringing foreign trade turnover to approximately 1.67 million leva. The share of Soviet bloc countries in Bulgaria's foreign trade is about 85%, with the Soviet Union alone accounting for about 55%. Agricultural primary products (consisting almost entirely of grapes and tobacco) still take the largest share of Bulgarian exports, making up approximately 22% of the total value. The most dynamic export sector is, however, machines and equipment, which from a share of only 2.5% in 1955, reached about 21% in 1962 and, according to the Five-Year Plan target, will reach 27% in 1965. The foreign trade increase target for 1965 is 80% over the 1960 results. With the present pace continued, this target, which would require an annual average increase of 12.5%, seems to be within reach.

Conclusions

12. In spite of good results in certain branches, prospects do not seem to be too bright for the Bulgarian economy. The entire system seems to have been overstrained by ambitious planning and experiments, thus making inflationary tendencies in

1963 possible. Considering that the latest currency reform was only carried out on 1st January, 1962⁽¹⁾, it seems unlikely that the Bulgarian planners could resort again to a devaluation of the leva to overcome these difficulties.

(1) See AC/127-WP/86.

VII. ALBANIA

Population: 1.7 million
Area: 28,748 sq.km.

Introduction

Among the European satellites, Albania is not only the smallest, but also the poorest in natural resources and the most backward economically and culturally. Its population increases at the very high rate of 3.0%. In 1945, the only "raw materials" for the planners were land and labour; there were no railways, very few and poor roads, and no electricity. Even now, after fifteen years of industrialisation, Albania remains a very underdeveloped country with nearly 70% of its inhabitants living in rural areas and approximately 40% of net material product being derived from agricultural production.

2. Apart from being a source of several raw materials, which in the post-war years were in short supply within the Soviet bloc, as for instance bitumen and chrome ore, the main importance of Albania to the Soviet Union was that of a military and naval base on the Adriatic Sea. Large sums were invested by the Soviets in Albanian roads, the establishment of a network of airfields for jet fighters and light bombers, the overhaul of the Valona naval base, the construction of bomb-proof submarine shelters, the building of extensive underground oil storage facilities and the laying of pipelines linking the oil refinery at Cerrik, the oil fields of Patos, and the port of Valona.

Planning

3. The Albanian leaders eagerly imitated the Soviet industrial programme, putting the stress on heavy industry with little regard to the country's natural resources and possibilities. This led to a consistent lack of balance in the Albanian economy and the country's need for a steady stream of foreign subsidies. The ambitious first Five-Year Plan (1951/1955) had therefore to be drastically curtailed in 1953, and Soviet advisers saw to it that the second plan reflected more cautious investment policies. The current third Five-Year Plan 1961-1965 envisaged, in contrast to its predecessors, a faster growth of gross agricultural output than of industrial production, providing for an overall increase in net material product of 56% (annual average 9.3%), in industry of 52% (annual average 8.7%), and in agriculture of 72% (annual average 11.5%). As the plan was based on Soviet bloc credit totalling 800 million old rubles, the political and economic rift with the Soviet Union in 1961 obliged the Albanian planners to revise their targets. Net material product in 1962 was reported to have been 8% over the 1961 level.

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Industry

4. The complete rupture of commercial relations with the Soviet Union, the freezing of credits and the recall of practically all Soviet and Eastern European specialists from Albania put a heavy strain on Albanian industry in 1961 and 1962. From the very few data available, it appears, however, that thanks to 500 Chinese technicians, Chinese deliveries and credits in foreign currency, Albanian industry succeeded in overcoming these difficulties.

5. In 1962, gross industrial production was reportedly fulfilled 100.7% - 6.4% increase over 1961, but far from the 1955/1959 average of 16.7% claimed prior to the break with the Soviet Union. Targets were said to have been overfulfilled in the production of crude oil, chrome, nickel and copper (among Albania's principal exports) and in coal and electric power. In addition, the machine industry was praised for its "very good results" in producing machinery, equipment and spare parts for the industrial sector.

6. The 1963 plan for gross industrial production, investments and volume of construction envisages a 6% increase over 1962; construction is to begin on various Chinese-supported projects, including a copper refining and processing plant, a phosphate factory, a brick and tile factory, three paper mills and a cotton fabrics combine. Albania has not been able in the first two years of the third Five-Year Plan to achieve the 8.7% average annual increase in industrial production needed for the achievement of the 1965 targets. In view of past performance, as well as the fact that the 1963 industrial growth target is even further below this figure, it seems unlikely that the long-term plan for industry will be realised.

Agriculture

7. Despite admittedly adverse weather which affected agriculture, the Albanian Government claimed a 10% increase in production over 1961. Major increases were reported in the production of tobacco, grain, vegetables, meat and milk, with increases in deliveries from state agricultural enterprises of 13.5% for meat and 18.3% for milk. The park of tractors is reported to have been 21.5% larger in 1962 than in the previous year.

8. In 1963, agricultural production is to increase 22% - with production of tobacco, cotton, grain and beans to range from 25% to 46% higher than in 1962, thus nearly doubling the average increase target of the Five-Year Plan of 11.5%. For 1965, the following production targets have been set: cattle 0.55 million, sheep 2.2 million, goats 1.5 million and poultry 3.3 million.

Foreign trade

9. The share of Soviet bloc countries in Albanian foreign trade before the rift in 1961 had always been close to 100%, with the Soviet Union accounting for 50% and more. A continued annual deficit in the trade balance of up to 2.5 billion Lek⁽¹⁾ made Albania more and more dependent on her bloc partners. In 1961, suddenly all long-term credits and all Soviet deliveries were stopped and repayment of former credits urged. Communist China, which hitherto had played a minor role in Albanian foreign trade with an average share of 2% in the years 1957-1959, went up to 28% in 1961, and 59% in 1962, a larger share than had ever been accounted for by the Soviet Union. Furthermore, the Chinese foreign currency credits enabled Albania to buy more from the West, whose share went up from less than 5% to 9.7% in 1962, Italy being the main supplier. The European satellites who had never severed their trade relations, have renewed their trade agreements with Albania in 1962, and Czechoslovakia is again in second place with a share of 17.4% (1961: 15%) of the total.

10. No statistics are available on the volume of foreign trade in 1962. However, the Government reported that foreign trade showed a further "marked development" (foreign trade turnover actually decreased in 1961) and that, with the exception of a few articles, all goods destined for export had been exported. In 1963, exports are to rise 26.4%, with imports to remain at the 1962 level. However, more machinery and equipment are to be imported than in 1962.

Conclusions

11. Though Chinese aid should prove adequate to save the Albanian economy from collapse, or even stagnation, China cannot, owing to her own industrial weakness, ensure delivery of all the industrial equipment and spare parts required for the fulfilment of Albania's 1961-1965 plan. Furthermore, the inconvenience to Albania of conducting three-fifths of her trade with a country on the other side of the earth must be considerable. Nevertheless, ideological reasons make it rather unlikely that Albania's trade with Western countries will be increased to a much greater extent, at least if one is to believe official statements. Premier Mehmet Shehu is reported to have said in July 1962 that Albanians would "eat grass and earth if necessary rather than ask for credits and aid from Imperialists".

12. Considering that the Hoxha régime is apparently in firm control of the country, Albania will probably be able to keep the standard of living of the population at its extremely low level, and to carry on with her economic development programme, though at a reduced pace and with revised output targets.

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PART C: ANNEXES

TABLE 1: NET MATERIAL PRODUCT

- (a) Rate of increase in % over previous year
- (b) % shares of industry and agriculture in net material product 1962

	Planned annual average to 1965	1959 actual	1960 actual	1961 actual	1962		1963 plan	% shares (2)	
					actual	plan		industry	agriculture
Germany SZO	6.8	8.5	4.6	4.1	3.0 ⁽¹⁾	4.5	5.5	69	12
Czechoslovakia	7.3	6.4	8.2	7.0	0.0 ⁽¹⁾	7.5 ⁽²⁾	0	63	15
Poland	7.0	5.1	6.4 ⁽³⁾	8.0	2.5	6.0	5.2	51	25
Roumania	9.8	13.1	8.0 ⁽⁴⁾	10.0	7.0	13.0		46	32
Hungary	6.0	6.9	10.1	6.0	5.0	9.0	3.1	55	26
Bulgaria	9.9	21.6	7.0	2.9	6.0	14.0	14.0 ⁽²⁾	45	32
Albania	9.3	16.9	3.0	10.0	8.0	15.0		40	40

(1) Estimates by the Economic Commission for Europe, Geneva

(2) Estimates by the International Secretariat

(3) Other sources give 4.5%

(4) " " " 10.7%

TABLE 2: GROSS INDUSTRIAL PRODUCTION
 (Rate of increase in % of previous year)

	Planned annual average to 1965	1955-1959 actual	1960 actual	1961 actual	1962		1963 plan
					actual	plan	
Germany SZO	9.4 ⁽¹⁾	9.0	8.2	6.2	6.1	5.8 ⁽³⁾	6.4
Czechoslovakia	9.3 ⁽²⁾	10.5	11.7	9.0	6.2	7.5 ⁽⁴⁾	1.0
Poland	8.7	9.8	11.1	10.3	8.7	8.4	5.0
Roumania	13.0	10.5	16.9	15.6	14.7	13.5	12.0
Hungary	8.3	7.0	13.1	10.9	9.0	8.0	8.0
Bulgaria	12.0	13.1	13.4	9.9	11.1	9.9	10.0
Albania	8.7	16.7	11.2	7.2	6.4	6.0	6.0

(1) 7% in the new Seven Year Plan 1964/70.

(2) 8 to 10% in the new Seven Year Plan 1964/70.

(3) 9.4% in the unrevised plan

(4) 9.5% in the unrevised plan

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TABLE 3: GROSS AGRICULTURAL PRODUCTION

(Rate of increase in % of previous year)

	Planned annual average to 1965	1955 - 1959 actual	1960 actual	1961 actual	1962		1963 plan
					actual	plan	
Germany SZO	4.5	2.0	10.6	- 11.2	c.i. (1)	c.i.	c.i.
Czechoslovakia	4.1	2.8	7.0	1.0	- 6.0	7.1	9.5
Poland	4.1	3.8	5.4	11.0	- 7.8	1.2	5.8
Roumania	7.0	4.2	1.6	5.0	c.i.	c.i.	17.0
Hungary	5.5	4.5	- 5.0	- 0.6	0	9.0	13.0
Bulgaria	8.3	5.1	3.3	- 3.5	2.3	12.6	17.1
Albania	11.5	1.3	- 7.0	18.7	10.0	20.0	22.0

(1) Below 1961 level

TABLE 4: PRODUCTIVITY

(Output per man in industry)

(Rate of increase in % of previous year)

	Planned annual average to 1965	1955 - 1959 actual	1960 actual	1961 actual	1962		1963 plan
					actual	plan	
Germany SZO	9.3 ⁽¹⁾	5.5	8.7	7.2	8.4	6.1	7.0
Czechoslovakia	7.4	6.5	7.7	5.1	3.2	6.0	0.7
Poland	7.0	6.0	10.7	6.6	4.1	5.4	c.i.
Roumania	8.5	8.5	11.1	5.9	6.6	8.5	9.3
Hungary	5.8	4.0	6.0	8.1	5.7	5.4	5.0
Bulgaria	8.4	4.6	2.7	7.8	7.6	7.4	6.1
Albania	4.9	5.0	9.7	5.0	2-14.5	5-19	c.i.

(1) 7.4% in the new Seven Year Plan 1964/70

TABLE 5: INVESTMENT

(fixed state capital investment)

(rate of increase in % of previous year)

	Planned annual average to 1965	1955 - actual	1960 actual	1961 actual	1962		1963 plan
					actual	plan	
Germany SZO	10.4 ⁽²⁾	15.0	10.5	3.0	1.4	6.0	9.0
Czechoslovakia	9.7	12.7	12.5	7.3	-1.0	8.0	-6.0
Poland	7.9	9.0	6.5	8.2	13.4	10.0	8.3
Roumania	12.6	8.9	32.0	21.0	12.0	16.5	12.0
Hungary	5.1	8.0 ⁽¹⁾	13.0	-20.0	8.0	16.0	14.0
Bulgaria	8.9	11.4	16.0	3.4	7.5 ⁽¹⁾	11.0	15.0 ⁽¹⁾
Albania	8.0	18.0	-6.5	6.7	7.0	n.a.	6.0

(1) Estimate by the International Secretariat

(2) 7.5% in the new Seven Year Plan 1964/70

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TABLE 6: FOREIGN TRADE TURNOVER (3)

- (a) rate of increase in percentage of previous year
- (b) percentage shares of Sino-Soviet bloc and of Western countries

	Planned annual average to 1965	1955-1959 actual	1960 actual	1961 actual	1962		1963 plan	% shares (1)	
					actual	plan		Sino-Soviet Bloc	West
Germany 820 ⁽³⁾	8.4	11.6	6.0	1.0	6.0	6.0	15.4ex 0.0im	74	26
Czechoslovakia	8.0	11.4	12.4	8.7	4.7	9.0	n.a.	73	27
Poland	7.0	7.7	10.0	13.1	10.6	5.5	4.5	63	37
Roumania	12.2	3.8	33.0	17.0	9.0	15.0	5.3	65	35
Hungary	7.9	8.3	17.3	11.0	9.6	10.0	10.0	71.6	28.4
Bulgaria	12.5	18.7	16.0	10.2	18.0	15.6	c.i.	85	15
Albania	10.9	27.0	8.7	-6.8	n.a.	8.0	26.4ex 0.0im	90 ⁽²⁾	10

- (1) Estimates by the International Secretariat, except for Czechoslovakia, Poland and Hungary, where official figures are given.
- (2) Of this, Communist China alone accounts for 59%
- (3) The figures of this table are based on official communist sources and therefore include trade between the Soviet zone of Occupation and the Federal Republic of Germany which is not considered to be foreign but domestic trade

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TABLE 7: POPULATION
(in million)

- (a) actual population 1962
 (b) estimated population 1965
 (c) natural increase index
 (d) distribution (urban and rural) in %

	(a)	(b)	(c)	(d)	
	end 1962	end 1965 ⁽¹⁾	index	urban	rural
Germany, S.Z.O.	17.1	17.6 ⁽²⁾	1 %	72%	28%
Czechoslovakia	13.9	14.2	1.1%	58%	42%
Poland	30.5	32.4	1.2%	49%	51%
Roumania	18.8	19.7	1.3%	35%	65%
Hungary	10.1	10.4	1 %	40%	60%
Bulgaria	8.1	8.2	1 %	35%	65%
Albania	1.7	1.8	3 %	32%	68%
Total	100.2	104.3			

- (1) ECE estimate of March, 1960 - see 1959 Economic Survey, App. B, p.4.
 (2) The ECE estimate for the Soviet Zone of Occupation of Germany was 18.2 million. The figure given is an estimate by the Secretariat.

TABLE 8: RATE OF EXCHANGE

- (a) official rate for commercial transactions
 (b) tourist rate

	(a) official		(b) tourist
	Rouble	US \$	US \$
100 East (German) Marks	40.50	45.0	23.8
100 Czech. Crowns	12.50	13.9	7.0
100 Polish Złoty	22.50 ⁽¹⁾	25.0	4.3
100 Roumanian Lei	15.00	16.66	8.33
100 Hungarian Forint	7.67	8.55	4.3
100 Bulgarian Lev	76.92	85.1	-(2)
100 Albanian Lek	1.80	2.0	0.66

Sources: Izvestia, 2.3.63; Financial Times, 5.3.63.

- (1) According to a Reuter report from Warsaw of 2.4.63, the zloty has been devalued against the rouble by 2% as of 1.4.63, maintaining the tourist and commercial rate of exchange of Western currencies at the former level.
 (2) Tourist and official rate are identical for the Bulgarian Lev.

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TABLE 9: INDUSTRIAL OUTPUT OF MAIN COMMODITIES IN PHYSICAL UNITS

(a) 1962 (actual)
 (b) 1965 (plan)

	Unit	Germany S.Z.O.	Czech.	Poland	Roumania	Hungary	Bulgaria	Albania	Total
Electric power	(a) mld.	45.4	29.0	35.4	10.07	9.0	6.2	0.25	135.32
	(b) kwh	47.6	39.0	43.5	12.7	11.0	11.25	0.35	165.40
Coal	(a) m	235.0	92.4	120.8	9.58	29.0	22.0	0.3	509.09
	(b) tons	278.0	117.3	140.0	11.7	31.0	34.0	0.4	612.40
Crude Oil	(a) m		0.17	0.18	11.86	1.6	0.25	1.0	15.06
	(b) tons		0.2	0.18	12.5	2.2	0.3	2.0	17.38
Natural gas	(a) mld.	3.5	2.69	1.0	9.0	0.5			13.00
	(b) cu.m.	4.0			10.0	1.8			19.49
Iron Ore	(a) m	1.7	3.5	2.5	1.7	0.7	0.2	0.4	9.70
	(b) tons	2.0	4.3	2.8	2.0	1.0	0.25	0.6	12.95
Pig iron	(a) m	2.0	5.17	5.31	1.5	1.4	0.5		15.89
	(b) tons	2.1	7.7	7.4	2.0	1.3	0.7		21.50
Crude steel	(a) m	4.0	7.6	7.7	2.45	2.2	0.5		24.45
	(b) tons	4.63	10.7	9.0	3.3	2.6	1.4		31.63

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TABLE 9. contd

	Unit	Germany SZO	Czech.	Poland	Roumania	Hungary	Bulgaria	Albania	Total
Cement	{a} {b}	6.2 7.97	1.0 8.75	7.5 10.2	3.5(1) 4.2(1)	1.7(1) 2.3	2.0(1) 3.1	0.08(1) 1.0(1)	53.61 37.52
Fertilisers	{a} {b}	2.4(1) 2.8	0.4(1) 0.6	0.57 0.84		0.15(1) 0.28	1.42		3.52 5.94
Rolled steel	{a} {b}	3.0(1) 3.5(6)	5.0(1) 7.4(4)	5.24 6.0	1.67 2.0(1)	1.6(1) 2.0(1)	0.3(1) 1.0		16.81 21.90

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- (1) Estimates by the International Secretariat according to 1960 or 1961 results, increase and/or fulfilment figures.
- (2) Of this, 109.6 mt. hard coal.
- (3) Of this, approximately 30% hard coal
- (4) In addition: 882,000 tons steel tubes.
- (5) Brown coal only (hard coal equivalent: 87.0 mt.)
- (6) Of which 300,000 tons steel tubes.

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TABLE 10: AGRICULTURE

Physical output of main products and size of livestock herds

(a) actual 1962
 (b) plan 1965

	Units	Germany S.Z.O.	Czech.	Poland	Roumania	Hungary	Bulgaria	Albania	Total
Grain	(a)	5.9		15.0	9.7	1.8			
	(b)			16.1	15.0	7.0			
Potatoes	(a)	13.2		40.0					
	(b)			44.0					
Sugar Beet	(a)			11.0		3.5			
	(b)								
Cattle	(a)	4.5	4.6	9.6	4.7	2.0	1.9	0.43	27.73
	(b)		4.8	10.5		2.3		0.53	
Pigs	(a)	8.1	6.0	13.6	4.7	7.8	2.56	0.11	42.87
	(b)		5.5	16.0		7.0		0.16	
Sheep	(a)	2.0	0.7	3.3	12.3	2.8	9.8	1.9	32.8
	(b)		0.6	4.1		2.5		2.2	
Meat	(a)	0.895	0.583	1.1		1.232			
	(b)			3.0					
Milk	(a)	7.64		15.4		2.7			
	(b)								