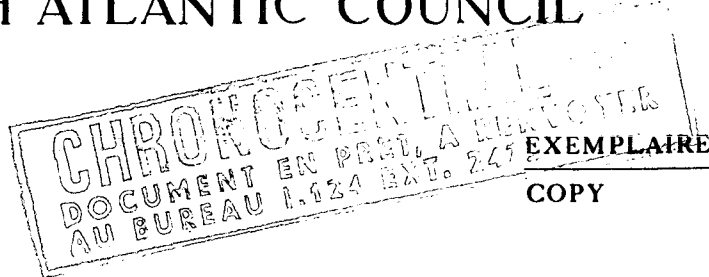


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ECONOMIC REVIEW OF EASTERN COUNTRIES

ROMANIA: THE ECONOMY SINCE
1970

Note by the Secretary

Attached is a study prepared by the United States Delegation, for consideration by the Committee during the reinforced meeting to be held on 5th and 6th December next.

(Signed) M. van den BULCKE

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N A T O R E S T R I C T E D

ROMANIA: THE ECONOMY SINCE 1970

Note by the United States Delegation

KEY POINTS

1. Romania boasts a 9% economic growth rate, thanks to tight central control of investment, accelerated imports from the industrial West, and self-sufficiency in energy and foodgrains. The price of success has been a sharp increase in debt to the West, now standing at more than US \$2 billion. Even with this growth, Romania remains among the poorest countries in Eastern Europe, as measured by per capita GNP and consumption standards. (For summary statistics, see Tables 1 and 2.)

2. Industrial output has grown rapidly from a small base, featured by advances in machine building (petroleum equipment especially), chemicals (fertilizer and petrochemicals), oil refining, and synthetic textiles. Agriculture is gradually being expanded and modernized, although output was held down by poor weather in 1973 and 1974.

3. Foreign trade with the industrial West has grown more rapidly than trade with the USSR, reflecting Romania's quest for greater economic independence from Moscow. In 1973, Romania became the first Warsaw Pact country conducting more than half its trade with non-Communist nations. Romania has successfully sought credits from various sources - Western governments, private banks, the World Bank, and the International Monetary Fund - and has relaxed restrictions on joint ventures with Western investors in Romania.

DISCUSSION

Introduction

4. Romania continues to achieve one of the highest rates of economic growth in Europe, GNP having increased at an average annual rate of 9% during 1971-73. Tight central control of investment, self-sufficiency in food grains and fuels,

Table 1

Romania: Indicators of Economic Growth¹

	Average Annual Rate in Percent				
	1966-70	1971	1972	1973	1971-73
Gross national product	6.2	9.4	8.6	8.3	8.8
National income	7.8	12.8	10.2	10.8	11.3
Gross industrial output	11.8	11.7	11.8	14.6	12.7
Producers' goods	13.0	12.2	11.8	14.5	12.8
Consumer goods	9.8	10.6	11.8	14.7	12.3
Gross agricultural output	2.0	19.0	9.3	1.0	9.5
Investment	10.9	10.5	11.0	9.1 ²	10.2

1. Official Romanian data, except for estimates of gross national product.

2. From centralized state funds only.

Table 2

Romania: Selected Economic Indicators¹

	1965	1970	1971	1972	1973
	Billion 1972 US \$				
Gross national product	19.6	26.5	29.0	31.5	34.1
	Million Persons at Midyear				
Population	19.0	20.3	20.5	20.7	20.9
	Million Metric Tons				
Grain	12.6	10.6	14.5	16.9	13.6
Meat (carcass weight)	0.462	0.590	0.608	0.691	0.760
Fertilizer (nutrient content)	0.293	0.895	1.082	1.200	1.242
Crude steel	3.4	6.5	6.8	7.4	8.2
Crude oil	12.6	13.4	13.8	14.1	14.3
Petroleum products	11.6	14.2	14.9	15.3	16.5
	Million US \$				
Exports to West	255	550	669	826	1,305
Imports from West	348	756	815	1,045	1,500

1. Official Romanian data, except for estimates of gross national product.

and the marketability of its exports in the industrial West have allowed the Ceausescu regime to pursue nationalistic economic policies in the face of opposition by the USSR.

5. Despite its recent rapid growth, Romania remains one of the poorest countries in Eastern Europe, as measured by per capita GNP in 1973:

	US \$
East Germany	2,870
Czechoslovakia	2,710
Hungary	1,850
Bulgaria	1,830
Poland	1,820
Romania	1,630
Yugoslavia	1,200
Albania	600

Agriculture

6. Two years of favorable weather, 1971-72, resulted in excellent harvests of all major crops. Drought in 1973 reduced output in spite of the growth in supplies of fertilizer and other inputs. Fertilizer use in Romanian agriculture increased by 12-1/2% annually in 1971-73 after more than doubling during the preceding five-year period.

7. Production of grain, the principal crop, averaged 15.0 million metric tons in 1971-73, compared with 12.7 million tons in 1966-70 (see Table 3).¹ Higher average yields more than offset a decline in sown area, as some grain land apparently was shifted to sunflowers and other industrial crops. Romania traditionally has been a net exporter of grain, mainly to hard currency countries. The disastrous harvest of 1970 required net grain imports of 1.2 million tons in 1971. In 1972-73, Romania managed to export about 700,000 tons annually while importing a smaller amount of feedgrains.

8. A rapid increase in livestock herds in 1971-73 was reflected in an expansion of meat production of about 9% annually. Much of the additional meat was sold abroad rather than consumed domestically. Agricultural exports, including meat, accounted for more than 40% of hard currency earnings in 1973.

1. Tables 3 through 8 appear in a statistical appendix.

9. Preliminary crop estimates for 1974 show grain output below 1973's lackluster 13.6 million tons, mostly the result of a drought early in the growing season. The corn crop was hardest hit -- it will run perhaps 10% lower than in 1973 and 30% below the record 1972 crop. Food grains are probably adequate to meet domestic demand and to service usual export markets, despite the decline from 1973. Imports of feedgrains are expected to range from 400,000 to 700,000 tons during FY 1975, a substantial increase over FY 1974.

Industry

10. The metals, machinery, and chemical industries now constitute more than one-half of Romania's industrial output, compared with less than one-fourth in 1950. The government effectively channels investment into industrial branches that support industrialization and exports. Furthermore, a large portion of the consumer goods produced by industry are ticketed for export.²

11. Domestic steel production of 8.2 million tons in 1973 was equal to 85% of steel consumption. Dependence on imports of iron ore, coke, and coking coal has been rising. In 1973, Romania imported 73% of its iron ore requirements, up from 66% in 1970. About one-half of coking coal needs have been met by imports since 1970; the share is increasing to meet the needs of new large coking ovens in Galati. The USSR remains the principal supplier of industrial raw materials. Romania has been looking increasingly to the West for alternative suppliers, particularly for iron ore and coking coal.

12. Growth of the energy sector slowed during 1971-73, contributing to Ceausescu's call in late 1973 for energy conservation. The share of natural gas has increased in recent years, now accounting for one-half of energy requirements; petroleum accounts for one-third; and coal and hydroelectric power, the remainder. The large coal reserves are low in quality and costly to exploit.

13. Romania has about 165 million tons of proved oil reserves -- enough for twelve years of production at the current rate. Natural gas reserves of 250 billion cubic meters are sufficient for about 8-1/2 years of production at the current output. By the late 1960s, crude oil production was too low for Romania's refining capacity, and imports of crude oil were initiated, mostly from the Middle East. By 1973, crude oil imports reached 4.2 million tons, almost one-fourth of available

2. For official data on growth rates in industry, see Table 4.

crude oil. Nonetheless, Romania is still a net exporter of energy, mainly petroleum products, with some electric power and a small amount of natural gas.

14. Shifts in investment priorities since 1965 explain some of the changes in industrial growth patterns. The share of industrial investment going to fuels and power, for example, has declined sharply (see Table 5). So too has the share for the metallurgical industries. Meanwhile, the share going to the chemicals, machinery, and consumer goods industries picked up sharply. Investment policy has favored industrial branches associated with modernization and export earnings. Chemical production, for example, has increased rapidly from a low base in the early 1960s and now accounts for more than 7% of exports - up from 2% in 1960.

15. First-half claims for 1974 indicated that industrialization was continuing on a fast track. Gross industrial production was said to have increased about 15% over first half of 1973, even faster than the 1971-73 annual average.

Industrial Policy and Reform

16. Economic policymaking has become more centralized as the leadership has tried to combat the inefficiencies accompanying rapid growth. Complaints have mounted about the waste of raw materials, the failure to deliver machinery, and the rusting of imported machinery left idle on the docks. In one survey, about one-fourth of construction projects scheduled for 1973 were unfinished, and \$60 million worth of imported machinery was either undelivered or idle. The Ministry of the Chemical Industry was singled out as the worst offender.

17. The leadership has experimented with various solutions since 1970, mainly involving personnel changes and greater centralization. High-level officials are shifted back and forth as Ceausescu searches for the right combination of expertness and political reliability. Several small ministries have been combined in agriculture and light industry, and the Ministry of Foreign Trade has been given more extensive authority over external trade. Moreover, the number of middle-level administrative organizations - the so-called Centrals - has been halved.

The Romanian Consumer

18. Even with the emphasis on investment, the growth in output has permitted small increases in living standards. Wages increased at an annual rate

of 3% in 1971-73. The regime ordered a 15% increase for 1974, intended in part to offset the increased prices of fuels and foodstuffs. Money incomes are rising faster than the availability of consumer goods and services. Savings increased by almost 20% in 1973 after increasing by an average of 16% during 1971-72. One motivation for saving is to buy new automobiles and apartments, now available for private ownership.

19. Housing is a chronic problem in Romania as it is in most of Eastern Europe. State investment in housing declined as a percentage of total investment from about 5.3% during 1966-70 to 3.8% in 1973. Construction of dwellings spurted in 1973 in part because of an increase in privately financed housing. Growth of state investment in housing continues to fall, however, and rapidly increasing prices for building materials are discouraging private construction.

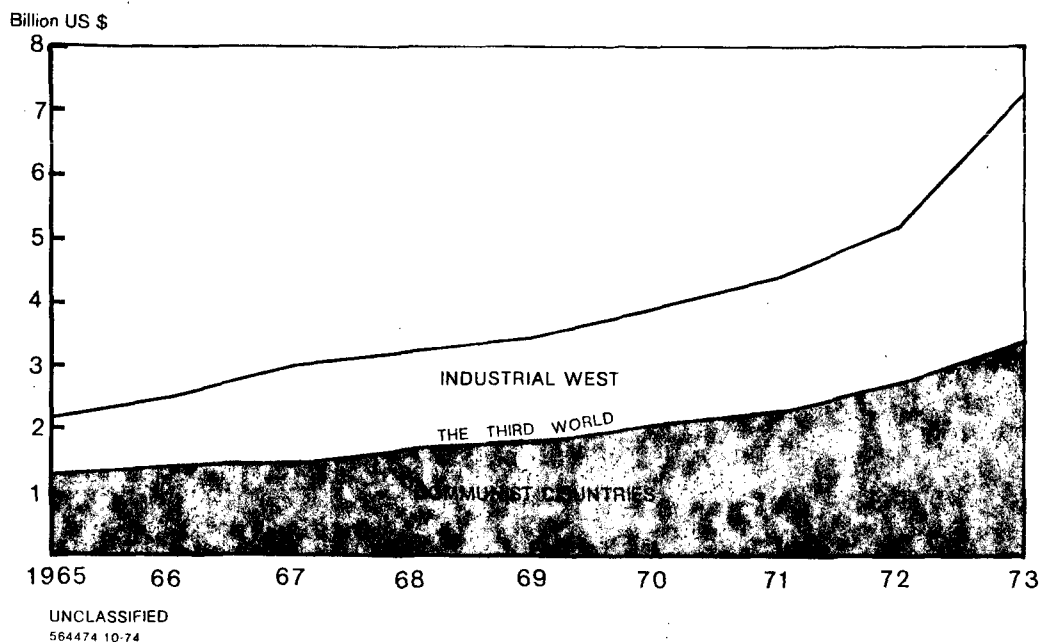
International Economic Relations

20. Since 1970, Romania has tried successfully to improve its economic relations with the industrial West and, as a result, in 1973 became the first Warsaw Pact member to conduct more than half of its trade with non-Communist nations (see the chart). In 1971, Bucharest relaxed its restrictions on Western investment in certain industries to permit minority Western participation. The following year, Romania joined the International Monetary Fund and began to borrow heavily to finance imports of Western equipment and technology. The USSR remains the single most important trading partner; West Germany is the leading Western partner.

21. The aggregate trade balance shifted from a small deficit in 1970 to a surplus of \$233 million in 1973, despite a \$195 million deficit in trade with the industrial West (see Table 6). Indebtedness to the West increased from an estimated \$1.5 billion in 1970 to \$2.3 billion in 1973. About three-fourths of the debt involves medium- and long-term obligations.

22. The commodity structure of Romania's exports has also shifted since 1970, with more rapid growth in the export of manufactures compared with raw materials (see Table 7). Most of the extra sales of machinery came in trade with other Communist and developing nations, where trade generally is on a barter basis. For example, Bucharest has supplied petroleum equipment to several Middle Eastern countries in exchange for crude oil, and machinery to India in exchange for iron ore. Exports to the industrial West have continued to feature fuels, materials, and foodstuffs. Bucharest recently has been able to market more fertilizer and industrial

Romania: Distribution of Trade



consumer goods in the West. The commodity structure of Romanian imports has not altered significantly since 1970. Machinery and equipment still made up more than two-fifths of total imports in 1973 (see Table 8).

23. The foreign trade structure was partly decentralized in 1971, in order to assimilate advanced technology more efficiently into industry. Industrial Centrals – combination of production enterprises and research facilities in a given branch of industry – were given authority to conduct a large part of their own foreign trade. Because Centrals were abusing their authority by loose handling of foreign currencies, above-plan orders of machinery, and expanding bureaucracies, Ceausescu in 1973 cut the number of foreign trade organizations under control of the Centrals by 40% and granted more power to the Ministry of Foreign Trade and International Cooperation.

24. To stimulate exports, a profit system was introduced in 1973 that grants a percentage of above-plan earnings to any foreign trade organization. The Romanians have also pushed for tariff breaks for their exports. In 1973 the European Economic Community granted preferences to Romania in line with the Community's policy of Generalized Trade Preferences for developing countries.

25. In an effort to import Western technology without increasing its hard currency debt, Romania in 1971 passed a law allowing up to 49% Western ownership in selected industries. Subsequently, four Western investments totaling about \$12 million in equity have been concluded: Falco di Biella (Italy), Control Data (United States), Zahnradfabrik (West Germany), and Dai Nippon (Japan). Only investment in export-related industries has been permitted. Machine gears, computer equipment, synthetic fibers, and animal feed are among the exportable products involved.

26. Even with the legal structure established, Western firms hesitate to enter into serious negotiations with Bucharest. Romania's biggest attraction has been low labor costs, but wage costs for joint companies are set higher than domestic levels. Moreover, Romanian laws are vague in areas such as profit repatriation and buy-back prices. In 1974, two Western companies abandoned their efforts to build plants in Romania. Volkswagen (West Germany) and Cummins Engine (United States) broke off negotiations, citing softening world markets and negotiating problems.

27. While Western companies have been hesitant to locate in Romania, Bucharest has experienced little trouble in getting Western financing. Its major sources of government-guaranteed credits have been West Germany, France, and the United Kingdom. Since 1973, Romania has drawn on the US Export-Import Bank for similar credits. Furthermore, it has made extensive use of Soviet-owned banks in the West and Western-owned private banks for non-guaranteed credits. In 1974 the World Bank granted Bucharest three long-term loans totaling \$190 million.

The Plan and Prospects Through 1980

28. The Romanian pattern of tight central control and high industrial growth rates is likely to continue through 1975, the final year of the current Five-Year Plan and, if the leadership has its way, through 1980. The new 1976-80 plan continues to favor the growth of heavy industry. Investment is to continue to grow at a fast pace and to absorb one-third of national output.

29. Production of crude oil is scheduled to increase to 15.5 million tons by 1980, from 14.3 million tons in 1973; this increase undoubtedly will be more than offset by rising domestic consumption, upping import requirements. Conservation measures are likely to remain in force, and the motorist in his new automobile will be paying higher prices for gasoline. Furthermore, the leadership

is sufficiently concerned over future raw material supplies that funds have been allocated to develop Romania's low-yield deposits of iron ore.

30. Much of the success of the next plan will depend on the leadership's ability to maintain worker discipline and control consumer dissatisfaction. Money wages are to increase, although prices are apt to stay close behind. No radical changes in food prices are expected. The production of consumer goods will increase, with a large portion finding its way into the export stream. Finally, state housing will continue to be starved for funds. Investment in private housing will lead to a slight easing of the housing bind.

31. Romania's almost insatiable appetite for Western machinery and higher prices on imported raw materials will keep the balance of payments with the West in the red. Romania will likely request more long-term loans from the World Bank, draw further on Western government-guaranteed credits, and request assistance from the Arab oil producers. At the same time, Bucharest will continue to push export production, actively seek Western investment, and expand earnings from tourism - all to meet rising debt service payments.

32. Since the early 1960s, Romania has pushed growth by importing technology from the West. About 15% of the machinery placed on the production line each year is imported from the West - most of which is channeled to high-priority growth projects, particularly the large Galati steel combine and chemical and petrochemical facilities. To a large extent, Romania is on a treadmill. To grow, it has imported technology from the developed West, mostly on credit; to pay off the credits, it must earn hard currency, mostly through exports, but in order to export, state-of-the-art technology is needed, which requires further imports.

33. Furthermore, imports must increasingly supplement Romania's dwindling raw material base. In 1973, imports of iron ore accounted for 73% of domestic consumption, opposed to 50% in 1965. The rapidly expanding steel industry's requirements for coking coal have forced Romania to swap potential hard-currency-earning oil products for Polish coking coal. Moreover, by 1980 almost one-half of Bucharest's coking coal imports will probably be from hard currency countries, mainly the United States.

APPENDIX

STATISTICAL TABLES

Table 3

Romania: Agricultural Production

	Average 1966-70	1971	1972	1973
	Million Metric Tons			
Major crops				
Grain	12.7	14.5	16.9	13.6
Wheat	4.7	5.6	6.0	5.5
Barley	0.5	0.8	0.8	0.6
Corn	7.2	7.8	9.8	7.2
Other	0.3	0.3	0.3	0.3
Potatoes	2.9	3.8	3.7	2.7
Sunflower seeds	0.7	0.8	0.8	0.8
	Million Head			
Livestock				
Cattle	5.1	5.2	5.5	5.8
Hogs	5.7	6.4	7.7	8.8
Poultry	45.5	54.3	61.3	64.5

Table 4

Romania: Real Growth of Gross Industrial Output

	Average Annual Rate in Percent				
	1966-70	1971	1972	1973	1971-73
Total	11.8	11.7	11.8	14.6	12.7
Electricity	16.7	12.1	10.7	8.3	10.4
Fuels	6.0	3.7	3.5	6.6	4.5
Coal	10.3	1.0	5.9	1.0	2.6
Crude oil	1.4	3.0	2.9	1.0	2.3
Petroleum products	6.5	5.0	2.9	9.0	5.6
Natural gas	8.9	7.0	3.7	5.5	5.4
Ferrous metallurgy	12.2	7.6	13.4	12.6	11.1
Nonferrous metallurgy	12.5	6.4	3.5	9.7	6.5
Machinery	15.9	15.9	15.9	20.4	17.4
Chemicals	21.2	15.0	12.1	18.3	15.1
Lumber and woodworking	6.5	5.0	5.3	8.0	6.1
Food	6.5	8.8	5.4	9.8	8.0
Light industry	10.5	13.4	13.7	16.1	14.4

Table 5

Romania: Investment in Industry

	1965	1970	1971	1972
	Billion 1963 Lei			
Total	23.0	38.0	42.9	49.3
	Percent			
Total	100.0	100.0	100.0	100.0
Electricity	17.0	15.2	14.8	13.0
Fuels	21.5	13.7	13.1	12.2
Ferrous metallurgy	11.6	9.0	7.1	6.4
Nonferrous metallurgy	6.8	3.0	3.8	4.7
Machinery	6.7	19.8	19.5	19.8
Chemicals	12.3	11.3	13.5	17.5
Food	4.1	6.4	6.5	5.9
Lumber and woodworking	5.8	4.5	3.9	3.2
Light industry	3.7	6.7	6.4	6.1
Other	10.5	10.4	11.4	11.2

Table 6

Romania: Foreign Trade

	Million US \$								
	1965	1966	1967	1968	1969	1970	1971	1972	1973
Total¹									
Exports	1,101	1,186	1,395	1,469	1,633	1,851	2,101	2,599	3,738
Imports	1,077	1,213	1,546	1,609	1,740	1,960	2,103	2,616	3,505
Communist countries									
Exports	756	735	789	873	970	1,075	1,197	1,451	1,854
Imports	660	694	754	827	888	1,057	1,132	1,351	1,581
The Third World									
Exports	91	114	193	180	201	225	235	322	579
Imports	70	73	84	108	141	147	156	220	424
Industrial West ²									
Exports	255	337	413	415	462	550	669	826	1,305
Imports	348	446	708	674	712	756	815	1,045	1,500

1. Because of rounding, components may not add to the totals shown.

2. Including Australia, Austria, Belgium, Canada, Denmark, Finland, France, Iceland, Italy, Luxembourg, Netherlands, New Zealand, Norway, Sweden, Switzerland, United Kingdom, United States, and West Germany.

Table 7

Romania: Commodity Composition of Exports

	Million US \$				
Commodity	1965	1970	1971	1972	1973
Total	1,101.4	1,850.8	2,101.0	2,599.1	3,738.0
Machinery and equipment	205.3	422.4	485.4	646.6	912.1
Chemicals, fertilizers, and rubber	70.9	129.7	171.9	213.7	272.9
Industrial consumer goods	121.4	335.4	386.6	491.7	702.4
Fuels, mineral raw materials, and metals	276.5	418.8	425.4	428.2	646.7
Petroleum products	139.1	123.1	142.9	137.8	276.6
Other	137.4	295.7	282.5	290.4	370.1
Building materials and fillings	37.4	47.6	55.9	75.6	123.4
Vegetable and animal raw materials (excluding food)	151.7	195.8	201.3	223.1	302.8
Live animals	0.2	0.7	0.3	0.2	0.2
Raw materials for foodstuff production	84.9	76.2	74.6	195.6	269.1
Foodstuffs	153.1	224.2	299.6	324.4	508.4

Table 8

Romania: Commodity Composition of Imports

	Million US \$				
	1965	1970	1971	1972	1973
Total	1,077.1	1,960.1	2,102.6	2,615.5	3,504.9
Machinery and equipment	429.9	789.8	885.8	1,206.2	1,479.1
Chemicals, fertilizers, and rubber	67.9	131.4	113.3	145.8	224.3
Industrial consumer goods	72.3	107.3	105.6	134.6	164.7
Fuels, mineral raw materials, and metals	338.6	596.4	635.6	694.9	970.9
Building materials and fillings	15.4	30.2	25.9	29.4	38.5
Vegetable and animal raw materials (excluding food)	117.9	197.9	183.6	271.6	424.1
Live animals	0.1	3.2	0.9	1.6	7.0
Raw materials for foodstuff production	9.1	44.3	75.1	60.0	115.7
Foodstuffs	25.9	59.6	76.8	71.4	80.6