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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

PROPOSAL FOR A STUDY OF ECONOMIC DEVELOPMENTS IN INDIVIDUAL
COMMUNIST COUNTRIES OF EASTERN EUROPE

THE RUMANIAN ECONOMY BETWEEN EAST AND WEST

Note by the United States Delegation

SUMMARY

Over the past 18 months, Rumania has moved in various significant ways toward a more independent status. It has embarked upon a course of independent actions based on Rumanian national interest and on apparent determination to exercise full autonomy in its internal affairs and to pursue a course in its foreign relations less dependent upon its past relationship to the Soviet Union and the Soviet bloc. This course involves important political and economic changes in both its attitude toward Moscow and its attitude toward relations with the United States and other Western countries.

2. The first clear evidence of Rumania's new course became evident in moves reflecting its determination to pursue its own nationalistic economic policies in spite of plans by CEMA(1) to assign Rumania a limited industrial role within the bloc; its determination to seek expansion of trade with the West, even where this might involve disadvantage to other CEMA members; and its opposition to forces of economic collaboration within CEMA which would deny Rumania freedom of decision.

3. The Rumanian Government has shown considerable pride in its economic accomplishments, which have included since 1960 the most rapid rate of industrial growth in Eastern Europe. It appears determined to realize an ambitious industrialization program, in which the metallurgical and petrochemical industries are the key, and to make the most advantageous deals possible in contracting for installations and sources of supply, either with CEMA members or with the West. As a consequence, the Rumanian Government has opposed Soviet designs for economic integration and a supra-national planning authority binding on all CEMA members; opposed CEMA-conceived narrow specialization in oil, fertilizers and agricultural products; and made evident its intention to develop

(1) Council for Mutual Economic Assistance (COMECON)

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Rumania's unexploited natural resources without CEMA help, should such help mean allowing CEMA control or undue sharing of benefits. Rumanian officials have taken the firm position that economic collaboration within CEMA should be achieved by coordinating national plans and not by any supra-national planning organ such as that proposed by Khrushchev in late 1962. They have stressed the necessity for independence, sovereignty and full equality of rights among the CEMA nations. Because of the wealth of its natural resources the Rumanians have been in a favorable position to pursue a more independent policy than most of the Eastern European CEMA members.

4. Rumania's efforts to negotiate contracts with Western suppliers and to increase its earnings of hard currency have, of course, raised strong objections from the USSR. Other members of the Soviet bloc have also evidenced concern over Rumania's determination to industrialize and to increase its trade ties with the West. The Rumanians in turn have publicly complained about defective equipment and delays in deliveries from some CEMA members for Rumanian industrial projects.

5. The fact is that Rumania has achieved its high economic growth rates without significant aid from other CEMA members and that it owes much to an extremely rapid expansion of trade with the West. There are no known current Soviet credits to Rumania or commitments for future credit. Credits from other CEMA members now being utilized by Rumania are of small magnitude.

6. Tensions and differences between Rumania and the Soviet Union over economic matters have carried over to the political sector. Rumania's studied avoidance of direct partisan embroilment in the Sino-Soviet dispute seems to be aimed at applying leverage on Moscow to gain increased freedom of action and broader latitude in promoting its national interest.

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I. THE SOVIET-RUMANIAN DISPUTE

7. The Soviet-Rumanian controversy centers around Rumania's desire to develop its economy independently. Rumania has opposed the Soviet Union's concept of socialist cooperation involving supra-national controls within CEMA which would limit its sovereignty and restrict its ambitious industrialization plans.

8. Two elements in the developments described above appear to have brought Rumania into conflict with prevailing CEMA policies.

(a) Rumanian Industrialization versus CEMA Specialization:

9. The first element relates to the Rumanian program as expressed in the 1960-65 plan to broaden significantly its industrial base, whereas prevailing CEMA policies call for a greater measure of production specialization within the CEMA countries founded largely on the economic structures now existing in those countries.

10. According to numerous reports, the key element behind these differences consists of the desire on the part of the majority of CEMA members to have Rumania abandon or diminish the development of certain key sectors of its industrialization program (power, ferrous metallurgy, machine building, and chemicals have been mentioned) and to concentrate on the further development of its capacities for production of petroleum and equipment for the petroleum industry, fertilizer production, and agriculture. Because it is the main, single project in the current Rumanian program, and because the USSR had, in 1960, promised substantial assistance in its construction, the Galati Steel combine has been regarded as a principal issue in the Rumanian opposition to CEMA policies. This project is designed to produce 4 million tons of steel products by 1970 (nearly double current Rumanian steel production) and to provide the basis for an expanded machine building industry. During the first half of 1963 evidence developed that the USSR was reluctant to carry through on its earlier promises to help equip the Galati project. The Rumanians have indicated their resolve to finish the project, however, and they have contracted with a British-French consortium for construction of the rolling mill at Galati and have continued to negotiate with other Western countries for additional equipment and technology.

(b) Rumanian Trade with the West:

11. The second element in Rumania's recent economic policies which appears to have brought it into conflict with CEMA stems from developments in Rumania's foreign trade. Rumania has sought vigorously since 1960 to expand its exports of agricultural products (especially corn) to the West in order to earn the foreign exchange needed to import Western machinery and equipment. This policy has deprived the Bloc of an important source of food and fodder which it seriously lacks. This deficiency either forces the USSR to supply additional quantities of these products or

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requires such countries as East Germany, Czechoslovakia and Poland to pay for growing imports of these commodities with scarce Western exchange. In addition, Rumania has justified its high level of trade with the West as a means for ensuring that it secures the latest technology to support the industrialization drive. Although such a policy would find some support in the bloc, which does not have the industrial capacity or technique to meet all such needs, it has threatened the export market for some industrial products of such countries as East Germany and Czechoslovakia and has given the Rumanians a strong negotiating position for insisting upon more timely deliveries and better quality of equipment from bloc sources, as it apparently has done in negotiations with the Czechs.

Recent Developments

12. Rumania had hardly formulated this comprehensive doctrine of national communism when it was confronted with indirect Soviet attacks on its independent policies. Moscow directed veiled radio and press attacks against Rumania's attitude in CEMA. Rumania responded with similar polemical broadcasts but was careful to avoid a continuing duel, being concerned primarily for the preservation of its national identity. This Rumanian self-restraint, and subsequent conciliatory gestures on Moscow's part, indicated that both parties were hopeful their differences could be accommodated to avoid further deterioration in their relations. In the meantime, however, Rumania took steps to strengthen its ties with its Balkan neighbours and with West European trade partners and to improve its popular image at home by accentuating Rumanian national values and improving the political and economic atmosphere.

13. Rumanian leaders and diplomats accelerated their activity in the summer months to consolidate and protect the gains which the country's new policies have registered in the past year. On the heels of the economic talks in Washington, other high-level government delegations visited Italy, Austria, West Germany, and France in July while the United Kingdom's leading trade official visited Bucharest. This diplomatic and trade activity followed closely on Gheorghui-Dej's meeting with Tito on 22nd June when the latter relayed Khrushchev's warning on Rumania's anti-Soviet polemics.

14. While Dej accelerated the drive to improve his standing in the West -- possibly to bolster support in the event of eventual Soviet countermeasures -- he despatched a Party delegation led by Politburo member and Prime Minister I.G. Maurer to Moscow (6-15 July), apparently to work out an understanding with the USSR to cease mutual recriminations. Maurer had hardly returned from Moscow when he left for France in an unprecedented visit which culminated in a meeting with President de Gaulle. Rumania's balancing act between East and West could not have been more prominently exemplified.

15. A similar display of Rumania's unique position in Eastern Europe was demonstrated during the 23rd August, 20th anniversary liberation celebration. The regime had greatly enhanced its popular image by a political amnesty and various economic easements. The exceptional gathering of Party and Government dignitaries from all communist countries in Bucharest on the national holiday provided tangible evidence of Rumania's greatly improved international prestige. Its nonpartisan stand in the Sino-Soviet conflict, which had already resulted in one notable mediation effort, could not have received a better dividend. Although Rumania seemed to have reaped notable benefits from its neutral stand in the dispute, its noncommittal posture continued to strain Bucharest's ingenuity as the Sino-Soviet conflict -- accompanied by mounting Soviet pressures -- increased in virulence.

II. THE RUMANIAN NATIONAL ECONOMY

16. The Rumanian economy has been one of the most dynamic in Eastern Europe. It is, in fact, to continue this activity, particularly in industrial growth, that the Rumanians have responded so negatively to recent Soviet economic proposals and have looked increasingly to trade with Western industrial nations. The Rumanian gross national product in 1963 amounted to \$10.8 billion. The GNP, which has increased almost 50 percent since 1955, has been increasing at an average annual rate of approximately 4½% in recent years (see Table 1). Rumania's estimated growth rate of new industrial production has been even higher, approximately 12 percent a year (see Table 2).

17. The economy had been one of the least developed in the Soviet bloc, but has shown the fastest growth in recent years. The average rate of growth of industrial production and capital investment in Rumania was higher in 1960-63 than in the mid and late 1950's, whereas in most of the other countries of the Soviet bloc it was lower. Agricultural production in Rumania has remained near or above the high level achieved in 1959, and personal consumption per capita appears to have increased somewhat.

18. The most important factors in the rapid development of the Rumanian economy are the high rate of investment involving large imports of capital equipment and technology. Total gross fixed investment in Rumania in 1959 amounted to approximately \$3 billion, which by 1963 rose to \$6 billion. Approximately 35 percent of the investment is in machinery and equipment. The share of new gross fixed investment in machinery and equipment stemming from imports rose from 19 percent in 1959 to 57 percent in 1963 (see Table 3).

19. The massive injection of investment, especially in machinery and equipment, has added substantially to Rumania's industrial capacity. It has resulted in a regular increase in labor productivity by a rising industrial labor force. Increased productivity of new fixed assets has received a significant boost from new technology imported from the West. Western technical assistance has enabled the Rumanians to introduce up-to-date equipment and know-how in relatively new industries, thus avoiding long delays and placing certain branches -- e.g. petrochemicals -- in a very advanced position. Up to the present time Rumania has exhibited an ability to sustain its continued economic growth.

20. Rumania's recent rapid economic growth has been accomplished with a concomitant modest increase in the standard of living. Prior to 1959 wide fluctuations were experienced in Rumanian gross agricultural production. Since 1959 agricultural output has been stabilized at an historically high level, adequate enough to supply the needs of a growing population as well as a surplus for export. It has been estimated that during the period 1959-61 per capita consumption of grains rose 7.0 percent, consumption of milk 18.0 percent, and consumption of meat 16.0 percent. The improvement in consumption was accomplished in spite of large increases in the export of food.

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21. Foreign trade has assumed growing importance in Rumania's industrialization drive. Since 1955, total Rumanian imports have risen from approximately 6 percent to nearly 10 percent of gross national product. Sustained rapid Rumanian economic development has become increasingly dependent on Rumania's ability to expand its trade to make up for shortages of certain materials (e.g. steel products, coke) and to move from the status of a raw material supplier (e.g. lumber, crude oil, grains) to the status of a semiprocessed or finished-goods supplier (e.g. cellulose, oil products, processed foods).

22. Rumania, second only to Poland among the Eastern European in area (91,700 square miles) and population (18.8 million in mid-1963), has long been one of the important corn and wheat growing countries of Europe and a major producer of oil. Rumania has achieved only a slightly higher degree of economic development than the other major Balkan countries -- Yugoslavia, Bulgaria, and Greece -- although it is the largest next to Yugoslavia and the best endowed with natural resources. The gross national product corresponds to about \$575 per capita, somewhat higher than for Greece, but much below the level in Western Europe and even in the northern Eastern European countries or the USSR.

23. Rumania exports mainly food products (corn, wheat, eggs, meat and other products), petroleum and timber. Rumania has the largest deposits of petroleum and natural gas in the Soviet bloc, after the USSR, considerable deposits of low-quality hard coal and lignite (although much of its coking coal must be imported), and a large potential in hydroelectric power which, however, is expensive to develop and as yet almost untouched. Less well endowed with industrial materials than with sources of energy, the country is about self-sufficient in the production of salt, sulfur, lead and zinc, but in general has only small resources of metals and other minerals. Imports account for more than one-half of the supply of iron ore, a major part of requirements of copper and mercury, and all requirements of aluminum and tin. In spite of the rapid growth of iron and steel production, an important share of requirements for rolled steel are still imported. Rumania also imports many types of machinery, although it exports a few specialities, such as petroleum equipment. The chemical industry is being developed rapidly, with emphasis on petrochemicals. Textile production provides a surplus for export, but cotton supplies are imported.

24. The main economic tools of the Communist regime have been the rapid growth of industrial production and the extension and consolidation of state control over the economy. Rumania has a planned economy modeled, in general, after that of the USSR, and the state exerts close control over nearly all economic activity. The regime has stressed the development of a diversified industry and of heavy industry in particular. Toward this end, the regime has increased investment much more rapidly than consumption, shifted excess labor from agriculture to industry, and sought to obtain advanced technology from both the Soviet bloc and non-Communist countries.

Economic structure and growth

(a) Overall economy

25. Agriculture in Rumania employs about two-thirds of the total labor force, but contributes only about one-fourth of the gross national product (GNP).(1) By contrast industry, with a contribution to GNP about equal to that of agriculture, accounted for only 16 percent of employment in 1962. The backwardness of agriculture and the low productivity of agricultural labor historically have been the dominant economic problems in Rumania. These are still serious problems although forced-draft industrialization has raised the share of non-agricultural employment in the total from 26% in 1950 to 35% in 1962. The absolute size of the agricultural labor force has remained almost unchanged since before World War II in spite of considerable improvements in agricultural technology so that the surplus agricultural labor force probably has increased.

(b) Industry

26. Rumanian industrial production has increased at an estimated average annual rate of 11% during 1951-63. Production also has become much more diversified than before World War II, when it consisted mainly of petroleum, agricultural processing, and textiles. The fastest growing branches of industry have been the machine building and metal processing and the chemical industries.

27. The largest Rumanian industries are the metals, machine building, petroleum, textiles and clothing, agricultural processing, and timber processing industries. In 1963, these industries together accounted for 74% of gross industrial production and for roughly 70% of employment in industry.

28. Employment in industry increased by slightly more than 55% during 1951-63, growing at an average annual rate of 4% during 1951-54, of only 2% during 1955-59, and of close to 5% during 1960-63. Labor productivity in industry, however, grew much more rapidly than employment, and in 1963 was an estimated 2½ times the 1950 level. The annual rate of growth of labor productivity was as high during 1960-63 as during 1955-59 -- 9% -- in spite of acceleration in the growth of employment and a sharp slowdown in the growth of fixed assets per worker (3% a year in 1960-63, compared with 7% in 1955-59). The causes of this improved performance probably were the careful and orderly method of labor recruitment, an increasing use of mechanized processes, and increased utilization of productive capacity as a result of increased production and imports of industrial materials.

(1) The value, at market prices, of final output of goods and services before deduction of depreciation allowances.

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(c) Agriculture

29. Rumanian agricultural production not only covers most domestic needs but also provides a significant share of Rumanian exports. However, despite successes in raising crop yields above the 1954-58 level, these yields remain among the lowest in Europe. The improvement in yields has been due partly to the absence of countrywide drought and partly to the increased use of improved seed, better cultivation techniques, and fertilizer. Except for poultry, the number of livestock has not increased significantly since 1955.

30. Collectivization of agriculture, which was nearly completed in 1962, has given the regime tighter control over agricultural output and led to increased procurement of agricultural products by the state. Although collectivization apparently had little adverse effect on crop production, it may have been a major cause of the decline in livestock numbers during 1962-63, and its full effects probably have not yet been felt. Through its strict control over the movement of labor, the regime prevented a precipitous flight of farm workers to urban areas during collectivization. Farmers' incentives no doubt have been reduced, but the peasants retain private plots and a substantial part of the country's livestock.

Table 1. RUMANIAN GROSS NATIONAL PRODUCT*
(Billion 1955 US \$)

<u>1955</u>	<u>1958</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
7.7	7.4	9.3	10.0	10.2	10.8

* Estimated at market prices.
Average annual rate of growth 4.3 percent (1955 is base year)

Table 2. RUMANIAN NET INDUSTRIAL PRODUCTION*
(1955 = 100)

<u>1955</u>	<u>1958</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
100	131	170	194	221	245

* Value added indexes of intermediate and final products of industry.
Average annual rate of growth 11.8 percent (1955 is base year).

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Table 3. STRUCTURE OF GROSS FIXED INVESTMENT IN RUMANIA, 1959-63
(Million lei)

	1959		1960		1961		1962		1963	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Total Investment	13,456	100	24,379	100	29,594	100	34,205	100	37,043	100
Construction	8,760	47.5	11,749	48.2	13,226	44.7	15,239	44.5	17,453	47.1
Machinery and Equipment										
Domestic	5,283	28.6	6,789	27.8	8,047	27.2	9,080	26.5	8,421	22.7
Imported	1,267	6.9	2,012	8.3	3,604	12.2	4,356	12.8	4,858	13.2
Other Investments	3,146	17.0	3,829	15.7	4,717	15.9	5,530	16.2	6,311	17.0

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III. FOREIGN TRADE

31. Although Rumania is less dependent on foreign trade than the other Eastern European countries, imports of machinery and equipment and of industrial materials have been of key importance in the rapid industrialization of the past few years. Rumanian foreign trade turnover in 1963 was more than four times the 1950 level, the periods of most rapid growth of trade having corresponded with the investment booms of 1950-53 and 1959-63.

32. About two-thirds of Rumania's total trade is with countries of the Soviet bloc, and the USSR is by far the largest trade partner, accounting for 42% of total trade in 1963. The role of the non-Communist countries in Rumania's trade has increased considerably in recent years. From 1959 to 1963, trade with the non-Communist countries increased 192%, while trade with Communist countries increased only 63%, and the share of the non-Communist countries in the total rose from 20% to 31%. Western European countries account for the bulk of Rumania's trade with the non-Communist countries, although Rumania is trying to expand its trade with the United States. A large part of increased Rumanian exports of agricultural products has been directed to the non-Communist countries and the country has obtained increased imports of key materials, advanced machinery, and technical assistance.

33. Rumania has incurred deficits in its overall commodity trade in most years during the post-World War II period. Export surpluses were achieved in 1959 and 1960, but deficits of US \$252 million were incurred during 1961-63. During 1961-63, Rumania incurred a trade deficit of US \$131 million in its trade with the non-Communist countries. These trade deficits apparently were covered chiefly by Soviet credits through 1958 and by West European and Czechoslovak credits since 1958.

34. Rumanian foreign trade has more than doubled since 1955 with an annual average increment rate of 10.3 percent (see Table 4). This rate has actually averaged more than 12 percent yearly since 1960.

(a) Trade Patterns

35. The Soviet Union continues to be Rumania's largest single trading partner (see Table 5). However, its share of total Rumanian trade has dropped from 47 percent in 1959 to 42 percent in 1963, although the volume of their mutual trade has almost doubled since 1959.

Table 4. RUMANIAN FOREIGN TRADE TURNOVER
(Million US \$) *

	<u>1955</u>	<u>1958</u>	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
Exports	422	468	522	717	793	818	915
Imports	462	482	502	648	815	941	1,020
Total	884	950	1,024	1,365	1,608	1,759	1,935

* Average annual rate of growth 10.3% (1955 is base year)

Table 5. RUMANIAN TRADE WITH THE SOVIET UNION
(Million US \$)

	<u>1959</u>	<u>1960</u>	<u>1961</u>	<u>1962</u>	<u>1963</u>
Exports to USSR	251	282	351	343	413
Imports from USSR	234	266	299	371	399
Total	485	548	650	714	812

% of total Rumanian trade	47.4	40.1	40.4	40.8	42.0
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36. Rumania's trade in 1959 with the other countries of Eastern Europe totaled approximately \$258 million or 25 percent of total Rumanian trade (see Table 6). In 1963, Eastern Europe-Rumanian trade amounted to \$436 million or 22.5 percent of total Rumanian trade. Although Eastern Europe's share of Rumanian trade decreased, total trade between Eastern Europe and Rumania in the period 1959-63 increased by approximately 70 percent.

37. Rumania's largest Eastern European trading partners are Czechoslovakia, East Germany and Poland, which share 75 percent of Rumania's Eastern European trade. Rumania's greatest trade deficits in Eastern Europe are with the same countries.

38. Although Communist China is Rumania's largest trading partner among the Asian communist countries, this trade represented barely 1 percent of all Rumanian foreign trade in 1963. From a value of \$60 million in 1959, their mutual trade declined to approximately \$28 million in 1963. Total Rumanian trade with other Asian communist countries increased from \$9 million in 1959 to \$24 million in 1963. Trade between Rumania and North Korea, Mongolia, and North Vietnam, although increasing slightly over recent years, accounted for only approximately 1 percent of total Rumanian trade in 1963.

39. Between 1959 and 1963 free world trade with Rumania almost tripled (see Table 7). Moreover, the free world's share of total Rumanian trade during the same period rose from 21 to 31 percent. In addition, the increase in the value of total Rumanian-free world trade has been accompanied by a growing percentage of trade allocated to the free world.

40. Trade between Rumania and the NATO countries rose from \$129 million in 1959 to \$392 million in 1963, increasing their share of total Rumanian trade from 13 to 20 percent.

41. Rumania's principal trading partners among the NATO countries are West Germany, Italy, France and the United Kingdom. The four countries increased their trade with Rumania from \$97 million in 1959 (75 percent of NATO trade with Rumania) to \$343 million in 1963 (88 percent of NATO trade with Rumania).

42. The share of Rumanian trade of the remaining NATO countries decreased from 3 to 2 percent, although their total trade with Rumania increased from \$32 million in 1959 to \$49 million in 1963.

43. Rumania has imported more than it has exported to the NATO countries every year since 1961. The differences have been made up largely by short and medium-term credit. In 1962 the trade deficit amounted to approximately \$30 million, which accounts partly for the subsequent cutting back of Rumanian imports from NATO countries in 1963. The remarkable increase of \$40 million of Rumanian exports to NATO countries in 1963 over 1962 resulted primarily from an increase in exports to France of \$12 million and to Italy of \$27 million.

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Table 6. RUMANIAN TRADE WITH EASTERN EUROPE
(Million of US \$)

	1959	1960	1961	1962	1963
Albania					
Exports to	1.2	1.9	1.3	.8	1.5
Imports from	.4	.7	.4	1.1	2.0
Total Trade	1.6	2.6	1.7	1.9	3.5
Bulgaria					
Exports to	6.6	9.2	9.1	11.7	11.8
Imports from	4.9	8.6	14.1	17.1	13.7
Total Trade	11.5	17.8	23.2	25.8	25.5
Czechoslovakia					
Exports to	35.0	62.6	56.8	58.3	54.9
Imports from	49.2	63.9	76.3	88.7	101.6
Total Trade	84.2	126.5	133.1	147.0	156.5
German Democratic Republic					
Exports to	35.5	53.9	52.9	46.6	41.9
Imports from	44.8	51.9	58.6	55.6	64.3
Total Trade	80.3	105.8	111.5	102.2	106.1
Hungary					
Exports to	22.9	42.0	25.0	38.3	36.7
Imports from	18.3	25.8	29.4	36.5	33.9
Total Trade	41.1	67.8	53.4	74.8	70.6
Poland					
Exports to	21.9	20.9	24.6	40.1	33.2
Imports from	17.8	23.1	31.9	35.1	40.9
Total Trade	39.7	44.0	56.5	75.2	74.1
Total exports to Eastern Europe	123.1	190.5	167.7	195.8	180.0
Total imports from Eastern Europe	135.4	174.0	210.7	234.1	256.4
Total Trade with Eastern Europe	258.5	364.5	380.4	429.9	436.4
% of Total Rumanian Trade	25.3	26.7	23.5	24.4	22.5
Balance of Rumanian Trade with Eastern Europe	-12.5	16.5	-41.0	-38.3	-76.4
Eastern Europe's Share of total Rumanian imports	27.1	29.5	20.9	24.0	25.1

* 6 lei = \$1.00 (Numbers Rounded)

Table 7. RUMANIAN TRADE WITH ASIAN COMMUNIST COUNTRIES
(Million US \$)

	1959	1960	1961	1962	1963
Communist China					
Exports to	29.5	33.3	9.3	2.2	13.8
Imports from	29.9	23.6	19.7	10.5	14.1
North Korea					
Exports to	5.4	5.3	.9	2.9	4.5
Imports from	1.1	2.9	2.8	1.7	6.1
Mongolia					
Exports to	.1	.2	.5	.5	.6
Imports from	.1	.2	.5	.5	.7
North Vietnam					
Exports to	1.6	4.5	4.3	4.9	6.6
Imports from	.9	2.2	2.6	2.6	4.4
Total exports	36.6	43.3	15.0	10.5	25.5
Total imports	32.0	28.9	25.6	15.3	25.3
Total trade	68.6	72.2	40.6	25.8	50.8
% of total					
Rumanian trade	6.7	5.3	2.5	1.5	2.6

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Table 8. RUMANIAN TRADE WITH THE FREE WORLD*
(Million US \$)

	Exports to the Free World	Imports to the Free World	Total	% of Total Rumanian Trade
1959	112	99	211	21.0
1960	199	181	367	27.0
1961	242	278	520	32.3
1962	253	314	567	32.2
1963	276	328	604	31.2

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Table 9. RUMANIAN TRADE WITH NATO

a. RUMANIAN EXPORTS TO NATO
(Million US \$)

	1959	1960	1961	1962	1963
US	1.2	1.5	1.4	.6	.8
Canada	.04	.09	.3	.06	.1
Belgium-Luxembourg	3.3	3.7	7.2	6.1	8.6
Denmark	.5	.3	.9	.5	.5
France	14.8	14.4	17.1	22.1	34.3
FRG	24.9	41.9	52.4	61.8	56.2
Greece	5.4	3.4	3.9	5.9	6.3
Iceland	.004	.07	.07	.3	1.3
Italy	11.4	31.5	41.5	35.4	62.1
Netherlands	1.7	2.3	5.4	3.3	3.8
Norway	2.8	2.7	2.4	.7	.8
Portugal	-	2.7	2.4	1.0	1.3
Turkey	1.4	1.7	1.5	.8	2.6
UK	6.0	10.9	16.9	19.8	20.8
	<u>73.4</u>	<u>117.0</u>	<u>153.4</u>	<u>158.4</u>	<u>199.5</u>

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b. RUMANIAN IMPORTS FROM NATO

	1959	1960	1961	1962	1963
US	1.8	1.3	1.4	.8	1.2
Canada	1.2	1.4	1.0	.5	1.2
Belgium-Luxembourg	3.1	7.7	5.2	5.4	8.4
Denmark	1.1	.7	1.3	4.8	1.4
France	8.9	25.1	23.6	20.6	20.8
FRG	16.4	35.7	57.9	82.1	73.3
Greece	1.9	2.5	2.4	2.9	3.2
Iceland	-	.1	.1	.3	1.0
Italy	8.1	16.3	23.3	37.2	41.9
Netherlands	2.5	3.2	3.0	3.7	3.8
Norway	2.8	2.3	1.6	1.4	.6
Portugal	.4	.8	1.1	1.8	1.6
Turkey	.5	1.1	1.9	.7	.8
UK	6.6	11.9	41.4	25.6	33.3
	<u>55.3</u>	<u>110.1</u>	<u>165.2</u>	<u>187.8</u>	<u>192.5</u>

Table 10. TOTAL RUMANIAN TRADE WITH NATO
(Million US \$)

	1959	1960	1961	1962	1963
Exports to NATO	73.4	117.0	153.4	158.4	199.5
Imports from NATO	55.5	110.1	165.2	187.8	192.5
TOTAL	128.7	227.1	318.6	346.2	392.0
Percent of Total Rumanian Trade	12.6	16.6	19.8	19.7	20.3

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Table 11. THE "5's" SHARE OF RUMANIAN TRADE
(Million US \$)

	Free World Trade With Rumania	Free World Share of Total Rumanian Trade	5's Share of Free World Trade With Rumania	5's Share of Total Rumanian Trade
1959	211	21	49	11
1960	367	27	56	15
1961	520	32	59	19
1962	567	32	59	19
1963	604	31	63	20

44. The significant change in free world-Rumanian trade has been primarily the development of trade between Rumania and its five major Western trading partners, -- Austria, France, West Germany, Italy and the United Kingdom. In 1959, 49 percent of the free world's trade with Rumania was carried on by the "5". By 1963, the "5's" share of free world trade with Rumania rose to 63 percent. Moreover, the "5's" share of total Rumanian trade rose from 11 percent in 1959 to 20 percent in 1963. If the increase in trade between the "5" and Rumania continues at the present rate, the "5" of Western Europe will soon surpass Eastern Europe in volume of trade with Rumania.

45. Germany and Italy are Rumania's best customers among the "5". Rumania's most important Western suppliers are West Germany, Italy and the United Kingdom. Rumania presently has a favorable balance of trade with Italy due to Italy's large imports of Rumanian food-stuffs. However, Rumania has substantial trade deficits with West Germany and the United Kingdom. The deficits with West Germany and the United Kingdom have occurred due to the imports by Rumania of entire plants and machinery and equipment.

46. From 1959 to 1963 the "5" absorbed almost all of Rumania's increased exports to the free world. On the other hand, the "5" during the same period only accounted for approximately one-half of Rumania's increased imports from the free world. This situation indicated that Rumania funneled some hard-currency earnings in Western Europe to other areas for essential purchases.

47. Rumanian trade patterns remain strongly oriented toward the East. However, the free world has succeeded in usurping a significant share of growing Rumanian foreign trade. This is due to Rumania's desire to import the most up-to-date equipment and technology from the West in order to speed up its industrialization program.

(b) Commodity Structure of Rumanian Trade

48. The composition of Rumanian imports from the Soviet Union remained relatively stable since 1959, with the emphasis on machinery and equipment and rolled ferrous metals. Rumanian imports of Soviet machinery and equipment amounted to \$49 million (21 percent of Rumanian imports from the Soviet Union) in 1959. In 1963 Rumanian imports of Soviet machinery and equipment amounted to 95 million (24 percent of Rumanian imports from the Soviet Union). Similarly, Rumanian imports of rolled ferrous metals increased in value from \$87 million (38 percent of Rumanian imports from the Soviet Union) in 1959 to 110 million (28 percent of Rumanian imports from the Soviet Union) in 1963.

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49. On the other hand, Rumanian exports to the Soviet Union have undergone a decided change in composition. Petroleum products amounted to \$107 million (43 percent of Rumanian exports to the Soviet Union) in 1959. In 1963, petroleum exports to the Soviet Union declined to \$76 million or 18 percent of Rumanian exports to the Soviet Union. Wood and wood products have remained at a constant 12.0 percent of Rumanian exports to the Soviet Union. Rumanian exports of steel pipe for oil and gas pipelines to the Soviet Union increased in value from \$25 million (10 percent of Rumanian exports to the Soviet Union) in 1959 to approximately \$47 million (12 percent of Rumanian exports to the Soviet Union) in 1963. The fastest growing Rumanian export to the Soviet Union is machinery and equipment (especially oil-well drilling equipment), which increased in value from \$21 million (8 percent of Rumanian exports to the Soviet Union) in 1959 to \$63 million (15 percent of Rumanian exports to the Soviet Union) in 1963. Increased Soviet usage of Rumanian machinery and equipment and steel pipe has offset increased Rumanian requirements for Soviet machinery and equipment.

50. The commodity structure of free world Rumanian trade has changed dramatically in recent years. In 1958 the Rumanian machinery and other manufactured imports from the free world amounted to \$45 million, 45 percent of total imports from the free world. By 1962, Rumanian imports from the free world included machinery and equipment valued at \$123.2 million and manufactured goods, valued at \$71.8 million, the two categories together accounting for 65 percent of imports from the free world.

51. The principal Rumanian exports to the free world in 1958 were: petroleum products, \$50.0 million or 37.9 percent of total exports to the free world; wood and wood products, \$35.2 million or 26.6 percent of total exports to the free world; and foodstuffs, \$21.7 million or 16.4 percent of total exports to the free world. Rumanian exports to the free world in 1958, of machinery and equipment amounted to \$2.3 million or 1.7 percent of the exports. In 1962, the principal Rumanian exports to the free world were foodstuffs, \$73.2 million or 30.2 percent of Rumanian exports to the free world; petroleum products, \$57.7 million or 24.1 percent of exports to the free world; and wood and wood products, \$46.7 million or 19.5 percent of exports to the free world. Rumanian exports of machinery and equipment to the West in 1962 amounted to \$5.6 million or 2.5 percent of Rumanian exports to the free world.

52. The Rumanians increased their exports to the free world 2-1/2 times from 1959 to 1963, while during the same period their imports from the West tripled. Rumania was able to increase dramatically its imports through the use of short and medium-term credit. Moreover, the Rumanians mine approximately \$20 million of gold and \$1 million of silver a year which significantly enhances their trade capabilities. Thus, Rumania, through an adroit combination of natural resources, credits and skillful negotiations, has succeeded in greatly increasing its foreign trade with the West.

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53. Although it appears that Rumania will be able to sustain its increasing foreign trade with the West over the next few years, there are a few problems the Rumanians will have to cope with. At present there is little Western demand for Rumanian machinery and equipment. For example, the free world imported only \$6 million of Rumanian machinery and equipment in 1959, \$8 million in 1960 and 1961, and \$6 million in 1962. Rumania is likely to continue to rely during the next few years principally on raw materials, foodstuffs, and semi-finished products to earn foreign currency. However, as Rumania continues to place increasing emphasis on development of its industrial sector, there will be relatively fewer resources at the disposal of the primary producing areas. Moreover, with the burgeoning industrial work force, there will be a greater demand on the primary producing areas to meet the demands of a growing urban population. In addition, foodstuffs and raw materials are subject to the price instability and inelasticity of demand of the international market.

54. Rumania must not only increase its exports to the free world, but it must broaden the commodity structure of its exports to include the manufactured products of its growing industrial sector. Therefore, if Rumania desires to maintain and even increase its trade with the West, its association with some of the Western economic organizations becomes increasingly important. Rumania's awareness of these aspects of its trade with the West was indicated by its voting at UNCTAD and its recent interest in Western economic organizations.

IV. RUMANIA AND WESTERN ECONOMIC ORGANIZATIONS

(a) UNCTAD

55. Rumania appears to be aware of the benefits which may accrue to a country that is regarded as less-developed. The attempts by Rumania to expand its trade with the West are meeting some difficulty because its customers in the free world are more receptive to Rumanian raw materials and foodstuffs than to its manufactures. Rumanian manufactures are of relatively inferior quality as compared with the West. Consequently, Rumania is finding competition severe in its Western trade, and therefore it is most interested in obtaining special concessions from the free world.

56. A recent manifestation of Rumanian awareness of its problem was Rumania's line at the United Nations Conference on Trade and Development (UNCTAD), which was notably divergent from that of the USSR and its East European allies. New institutional machinery was one of the key issues at UNCTAD, and proposals were made by the developing countries, the Western countries and the Soviet bloc. Rumania refrained from listing itself as a sponsor of any of these proposals. The Rumanian theme was outlined by the Rumanian delegate in his opening speech: countries should be grouped according to their level of economic development, "irrespective of their social order or trade system". In other words, Rumania should be considered a less-developed country in any case where less-developed countries are given preferential treatment.

57. Throughout the conference Rumania persisted in its attempts to be considered a less-developed country. The most formal effort came when a Rumanian representative introduced a procedural suggestion to the effect that whenever the term "developing country" was used in the proceedings it would be understood to include all countries in that category irrespective of their internal systems. The proposal was withdrawn when its dubious procedural validity was questioned. Since the debate on the proposal was entirely procedural, the USSR was able to oppose the Rumanians. Although the strenuous Soviet attack was not answered by the Rumanians, neither did it have any direct effect on their decision to withdraw. The Rumanians did not withdraw the suggestion until it became absolutely clear that for procedural reasons it would not have the support of the developing countries and that it would be opposed by the West.

58. The Rumanians also sought to be accepted by the under-developed countries. They apparently solicited invitations to the meetings of the "75", the combination of developing countries which was formed during the preparatory work of the conference as a caucus to advance joint economic objectives and which was the

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principal organizational unit for these purposes at UNCTAD. However, there was a feeling on the part of some members of the "75" that Rumania was an interloper and in many respects a "developed" country which was pursuing unique aims divergent from their own.

59. Rumanian delegates, nevertheless, occasionally caucused with the "75" and frequently voted with them. In fact, Rumania parted company with the Moscow-oriented communist countries on several votes of symbolic importance. For example, Rumania voted with the majority in favor of certain proposals calling for industrialized countries to increase their aid to the less-developed countries. The Soviet Union and its East European allies abstained on these proposals. In addition, Rumania departed from the Soviet position and voted with the "75" (1) on a resolution for gradual transformation and strengthening of the United Nations Special Fund;; (2) on the proposal for a study of international monetary issues; (3) on Senegal's proposal for a capital rebate fund; (4) on the proposal for a study of the marketing of primary products; (5) on proposals for supplementary financial measures to compensate for deterioration in the terms of trade of developing countries; and (6) on a proposal calling for aid to be increased from a controlled reduction in arms expenditures.

(b) GATT

60. Rumania has held informal conversations with the Executive Secretary of GATT regarding the possibility of Rumanian accession to that organization. Private comments by Premier Maurer in Bucharest and conversations between Rumanian officials and journalists have also indicated Rumanian interest in the organization.

61. Developments thus far, however, have clearly been of a preliminary fact-finding nature. The GATT Executive Secretary had the impression that the Rumanians might go further than the Poles in offering concessions to other GATT members. However, his impression was apparently based only on Rumanian open-mindedness in considering various possibilities of accession, which was indicated by the lack of specific Rumanian limits to their willingness to make concession.

62. The general provisions of GATT include unconditional most-favored-nation treatment; elimination of quantitative restrictions on imports with some exceptions; obligation to negotiate for the reduction of tariffs upon the request of another contracting party; nondiscrimination in the application of allowable restrictions, with certain exceptions; freedom of transit; simplification of customs formalities; liberalisation of marks-of-origin requirements; adaption of state trading practices to the same general principles of nondiscriminatory treatment applicable to private traders; and finally an escape clause. Decisions on the terms of accession are made by a two-thirds majority of the contracting parties.

63. GATT embodies a code of commercial policy and a multilateral approach to negotiations which is aimed at maximising multilateral nondiscriminatory trade among nations. For example, purchases and sales involving imports or exports by a state trading enterprise shall be made solely in accordance with commercial considerations such as price and quality. Moreover, the enterprises of other contracting parties must be given an opportunity to compete for the international business of the state trading enterprise in accordance with customary business practice. Furthermore, a reporting procedure is incorporated in the agreement to provide information about state trading enterprises maintained by contracting parties. The purpose of the reporting procedure is to provide interested contracting parties with information needed for possible negotiation or complaint if it is believed that a member of a state trading enterprise is operating in a manner inconsistent with the provisions of the agreement.

64. These provisions are not readily applicable to the state-trading operations of a centrally planned economy. At the same time the multilateral trade aspect of GATT does not automatically exclude a state trader such as Rumania from membership in the organization. Cuba and Czechoslovakia are contracting members to GATT; both were original signatories to the GATT when it came into force in 1948. Rumania has benefitted greatly from the large imports of Western machinery and equipment; their concern for this trade with the West accounts in part for the Rumanian overtures to GATT.

65. On the other hand, Yugoslavia and Poland have sought accession to the GATT as communist states. Yugoslavia, which has virtually eliminated its state foreign trade monopolies and allowed market forces to play an increasing rôle in determining its foreign trade pattern(1), has provisionally acceded to the GATT but has not yet conducted the tariff negotiations prerequisite to full accession. Poland has had a limited form of association with the GATT since 1959, allowing it to participate in GATT activities without any exchange of rights and obligations. However, Poland is actively attempting to negotiate a special basis for participation in the Kennedy Round, and hopes to achieve some form of accession involving trade rights and obligations.

(1) See Basic Instruments and Selected Documents. The Contracting Parties to the General Agreement on Tariffs and Trade, February 1960, February 1961, March 1962, and March 1963, for a detailed description of changes in Yugoslavia's trading practices.

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66. Yugoslavia was granted provisional accession to GATT on the basis of its declaration. Yugoslavia will become a full GATT member under the provisions of Article XXXVIII following the conclusion of tariff negotiations with the contracting parties.

67. Poland at the present time has a "form of association" with GATT. Poland's association is based on its Declaration of 9th November, 1959 stating that Poland was guided by the objectives set out in the Preamble to the GATT and that it desired to expand its trade with the contracting parties to GATT on the basis of mutual advantage in trading conditions and opportunities. The Declaration was approved and Poland was invited to participate in sessions of the contracting parties. Poland's Declaration, thus far, has undergone two annual reviews. Poland is presently negotiating with the contracting parties in order to participate in the Kennedy Round of trade negotiations and to obtain provisional accession to GATT.

68. At the present time accession of a communist country to GATT appears to depend primarily upon the willingness of the country to make its foreign trade practices more consonant with the general objectives of GATT. There is no set pattern for a communist country to accede to GATT. The accommodation in practices required by GATT varies from country to country. The main obstacle to Rumanian accession to GATT, therefore, will be its willingness or ability to demonstrate that it is able to comply with the general provisions of the organization.

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