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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY  
ECONOMIC REVIEW OF INDIVIDUAL EASTERN EUROPEAN COUNTRIES

RUMANIA

Draft Report to the Economics Committee

Note by the Chairman

In the series of re-examining sessions(1), a special meeting devoted to Rumania was held on 29th February, 1968, with the participation of experts(2) from various capitals.

2. The attached Draft Report is based on the results of this meeting, as well as on the detailed note prepared by the United States Authorities(3). It is intended to bring the report, submitted to the Council in March 1965(4), up to date. The present Draft Report deals, in particular, with the development of agriculture, industry and foreign trade, as well as with economic reforms.

3. This Draft will be put on the agenda of one of the next meetings of the Sub-Committee.

(Signed) A. VINCENT

OTAN/NATO,  
Brussels, 39.

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- (1) Czechoslovakia: 7th November, 1966, Bulgaria: 27th April, 1967, Soviet Zone of Germany: 1st June, 1967, Hungary: 22nd June, 1967.  
(2) For a summary see ED/68/21.  
(3) AC/89-WP/233.  
(4) C-M(65)18.

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ECONOMIC REVIEW OF EASTERN EUROPEAN COUNTRIES

RUMANIA

Draft Report to the Economics Committee

I. SUMMARY AND CONCLUSIONS

Although among the East European Communist countries Rumania is one of the best endowed in natural resources, its Gross National Product per head is still one of the lowest in Eastern Europe(1). Rumania's economy has continued to expand rapidly, but the rate of growth has been higher in industry than in agriculture, and in industry itself the output of capital goods has increased much more than that of consumer goods. This explains why the standard of living of the population - which is still low - is improving only slowly. This situation seems to be accepted with resignation by the population. It does not create serious difficulties for the authorities, who have gained widespread support for their foreign policy aiming at a higher degree of independence of the Soviet Union.

2. Rumania has recently undertaken some measures of economic reform, but these are more limited than in other Communist countries of Europe and what their practical effect will be in the near future is not yet clear.

3. The attitude of Rumania towards the Soviet Union has been one of reserve, if not defiance, on economic as well as political matters. In particular, her participation in COMECON is selective and never goes beyond the point where Rumania thinks her own national interest would cease to be served.

4. The development of economic relations with the Free World - and in particular the granting of export credits on a large scale - plays a growing part in helping Rumania to maintain rapid economic growth and to pursue independent policies.

5. There has been a marked shift of Rumania's trade from Communist countries to the West. Nevertheless about half of this trade is still conducted with Communist countries (and about one-third with the Soviet Union itself). This leaves Rumania still vulnerable to economic pressure from other COMECON countries. Although some further re-orientation of trade seems to be possible this implies that Rumania can find in the Free World not only sources of supply but also outlets for her products. Additional export credits may increase the flexibility of Rumania's trading position but she has received large amounts of such credits in recent years and has thus become fairly heavily indebted. Bearing this new situation in mind the conclusions of the previous report - as regards the attitude of NATO countries - are verenerally valid. NATO countries

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(1) Based on US estimates, adjusted to purchasing power equivalent of 1965 dollars: Rumania = \$830, Soviet Union = \$1427, Eastern Europe average = \$1180, Western Europe average = \$1603, United States = \$3776.

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should continue to take the steps they feel appropriate to expand trade with Rumania and, more generally, they should maintain flexible policies with a view to taking advantage of any opportunity which may occur to tighten their economic relations with Rumania.

## II. AGRICULTURE

6. Collectivisation of agriculture, which was completed in 1962, seems to have been achieved more smoothly than in most of the other Communist countries. As the result of a higher level of compulsory deliveries by the peasants and in view of the low rate of population increase, output has been adequate to meet the growing needs of the towns and to provide for the rapidly expanding export of agricultural products. These exports have helped to furnish the foreign currency required for the import of machinery and equipment from western countries.

7. However, Rumania's agriculture which employs over 50% of the total labour force(1) is still primitive by European standards. Yields per hectare of basic crops(2) and use of chemical fertilizers(3) are among the lowest in Eastern Europe. Privately tended plots (7% of arable land) yield the bulk of the potato crop and show much better results than those worked by the collectives. The average annual increase of total agricultural output in the period 1961-65 amounted to 2.5%.

8. Although the Rumanian planners are giving lower priority to investments in agriculture from State funds(4), they hope that production can nevertheless be increased at an annual average of 4.5 - 5.7% in the period 1966-70. In fact, the annual average (7.5%) for 1966/67, the first two years of the current planning period, seems to justify this hope.

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- (1) Share of total labour force in agriculture: 1950 = 74.1%, 1960 = 65.4%, 1966 = 55%.
  - (2) Yield in quintals per hectare (1965 figures): maize = 17.8 (Hungary = 29.3); wheat = 19.9 (Bulgaria = 25.5).
  - (3) In kilograms (pure nitrogen content) per hectare of arable land: 1963 = 17, 1965 = 35, 1966 = 46 (Czechoslovakia: 1966 = 168; Zone: 1966 = 286)
  - (4) Share of total investment (at 1959 prices): 1951-55 = 9.6%, 1956-60 = 14.9%, 1961-65 = 14.8%, planned 1966-70 = 12.6%.

III. INDUSTRY

9. Industrial production is contributing most to Rumania's economic growth. Its annual rate of increase is among the highest in the world (13.8% in the period 1961-65), capital goods (Group A) being favoured at the expense of consumer goods (Group B). Rapid growth in recent years has been made possible by the high rate of investment (1) (in particular in machinery and equipment) and by large imports of equipment and technical know-how from the West(2). In 1966, industry accounted for an estimated 36% of GNP and 19.7% of the labour force. Although the growth of productivity in Rumania's industry may be expected to slow down in the 1970s, it probably will remain fairly rapid over several years.

10. In the planning period 1966-70, gross industrial production is to increase at an annual rate of 10.6 - 11.6% (in 1966 it increased by 11.7% and in 1967 by 13.3%). During this period, a large number of plants previously under construction will come into full production. Many of these plants use machinery imported from the West and are capable of producing goods of higher quality than could have been obtained with machinery produced in Rumania or other Communist countries.

11. On the whole, Rumania's industrial plan makes economic sense since most of the investment is based on the raw material available in the country (petro-chemical, food processing, wood processing). However, output of crude oil is increasing only slowly as a result of the depletion of known oil reserves and Rumania will begin, in 1968, to import crude oil. Rumania's refining capacity is increasing faster than its oil production and the decision to export domestically processed crude with low sulphur content and to import lower quality crude from Iran is, therefore, economically sound. The emphasis placed on a rapid expansion of the iron and steel production is more questionable from an economic point of view. This policy was originally inspired by Communist ideology which favoured heavy industry; more recently the Rumanians have been anxious to foster all round industrial development as a means of achieving political and economic independence.

IV. CHANGES IN ECONOMIC MANAGEMENT AND PLANNING

12. The Rumanian economy is performing quite satisfactorily at present and its planners are under no immediate pressure to initiate basic institutional changes. Further economic expansion may be difficult to achieve within the rigid framework of the present planning mechanism and the régime is now

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(1) As a share of total investment: 1959-65 = 49.4%, 1966 = 50.6% of which Group A = 43.8% and Group B = 6.8%.

(2) These imports amounted to about 20% of total investment in machinery and equipment for 1965.

experimenting with economic reforms. The measures approved by the National Party Congress in December 1967 are planned to be introduced gradually and will be combined with a major overhaul of the provincial bureaucracy.

13. These measures - the term "reforms" is studiously avoided by the Rumanians - seem to aim essentially at:

- relieving the central economic bodies of the need of supervising the current activities of enterprises through the setting up of "industrial centrals";
- re-arranging the system of compulsory indicators;
- reducing a number of centrally distributed products;
- modifying the former system of budget finance of enterprises by increasing the role of bank credits and self-finance;
- co-ordinating the policy of price fixing between the central authorities and the newly established "industrial centrals"; discouraging enterprises from excessive use of imported products by raising the price of some imports;
- a high degree of differentiation in the wage system according to quantity, quality and responsibility of work.

The most striking feature of these proposed changes will be the setting up of new economic units between the ministerial and enterprise levels. These new "industrial centrals" will have broad control over groups of enterprises of the same branch and will eventually carry out many of the planning and management functions previously exercised by the central government, including substantial responsibility for foreign trade.

14. Seventy-one enterprises have been testing some of these new measures since the middle of 1957. All that is known about them is the fact that these enterprises contribute about 15% to total industrial production. It is not known whether they continue their experiment and there is no indication as to the results achieved so far. Neither is it clear whether the new principle of individual investment by enterprises out of retained earnings will be already introduced in 1968. Finally, there are indications that some rethinking has taken place recently among the Rumanian leaders and it has become doubtful whether the new "industrial centrals" will be able to exercise the functions delegated to them by the central authorities according to the "draft directives".

V. FOREIGN ECONOMIC RELATIONS

15. The pronounced shift of Rumania's trade towards the West should result this year in an almost even balance between trade with Communist and non-Communist states. No other East European Communist country has gone so far in pushing trade with the West.

16. In the years 1960-66, Rumanian trade increased at an average annual rate of 13% compared with only 4% in the years 1956-59. During this period, trade with Communist countries increased by a total of only 75% whereas trade with the non-Communist countries rose by 369%. As a result of the share of non-Communist countries' trade increased from 20.2% in 1959 to 40.4% in 1966. Although the Soviet share fell from 47% in 1959 to 34% in 1966, the Soviet Union remains Rumania's principal trading partner. Trade with the other COMECON countries declined from 25.1% of the total in 1959 to 20.6% in 1966; Czechoslovakia and the Zone are Rumania's most important trading partners.

17. The commodity composition of foreign trade shows that fuels, raw materials and semi-finished products still represent the most important category of exports although their share fell from 68% in 1959 to 48% in 1966. Among the fastest growing exports have been chemicals which, in 1966, were nearly six times the 1959 level. Foodstuffs comprised 24% of total exports in 1966 and machinery (mainly in trade with COMECON countries) some 19%. Imports of machinery and equipment accounted for 41% of total imports for 1966, of which most came from the West(1). The share of the West in total Rumanian imports increased from some 20% in 1959 to almost 43% in 1966.

18. During the 1958-66 period, Rumania incurred a cumulative trade deficit of some 450 million dollars(2). This deficit increased considerably during 1967. To cover it Rumania has received, over the past years, quite substantial credits from both Communist and Western countries. Between 1965 and mid 1967 new export credits extended by NATO countries alone amounted to \$549.7 million, a large part of which has not yet been used. Outstanding indebtedness on private guaranteed credits from NATO countries drawn since 1959 totalled about \$220 million at the end of 1966. In addition to these government guaranteed credits some NATO countries had extended private non-guaranteed credits for Rumania. About \$350 million of these credits were drawn at the end of 1966 so that total Rumanian indebtedness to NATO countries amounted to an estimated \$270 million at that date. Credits extended by industrialised non-NATO countries were comparatively small. Outstanding indebtedness was an estimated \$50 million at the end of 1966.

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- (1) In 1965: 37% of total imports from the West compared with 20% in 1959.
- (2) 291 million with non-Communist countries, 158 million with Communist countries.

The expansion of trade with Western countries has been significantly facilitated by these credits, which have also helped Rumania to acquire modern technology. However, they have reached such a level that the Rumanians themselves seem to have begun to doubt the wisdom of resorting to them to the same extent as in recent years.

19. Since 1950 Rumania has extended some \$267 million worth of credits to less-developed Third World countries but only \$51 million had been drawn by the middle of 1967.

20. Rumania's gold reserves have somewhat enhanced the country's creditworthiness. These reserves, substantial for a country the size of Rumania, amounted to some \$110-130 million at the end of 1966. Since 1948, Rumania has sold some \$105-124 million of gold, all of which went to Western countries. Domestic production of gold was estimated to be worth between 12 and 25 million dollars a year (the US authorities favour the higher figure, the German authorities the lower).

21. Exchanges of goods among Communist countries have been accompanied by various forms of loans or credits. During the period of 1945-56 Rumania received some \$189 million, since when she has received from the USSR only \$28 million, covering purchases for the Iron Gates hydro-electric project, in 1965. Over the last ten years Rumania has received some \$130 million from Czechoslovakia, the Zone Poland and Hungary; she herself has since 1950 granted other Communist countries some \$150 million of loans or credits.

22. The dependence of Rumania's heavy industry on raw material imports from other Communist countries, in particular the Soviet Union, does not seem to disturb the Rumanian leadership(1). Should economic pressure be applied it would undoubtedly hurt the Rumanian economy. However, various possibilities would be left open to the Rumanians to remedy this situation. They could switch to imports from non-Communist countries as suppliers of raw materials and buyers of machinery. One of their principal preoccupations would be the maintenance of steel production. But the Rumanians might be prepared, as they have done in the past, to cut down temporarily their production of steel until the supply situation had improved. The Rumanians might also find it difficult, in case of a crisis, to market in the Free World their export products which are intended for COMECON countries. It is not excluded that they may turn Soviet economic pressure to their advantage in order to enhance their bargaining position in negotiations with the industrialised West over economic matters.

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(1) Rumanian self-sufficiency is as follows: in iron ore: 48.4%, in coking coal: 62.1%, in metallurgical coke: 60.3%, in rolled steel: 79.5%, in rubber: 66%.

23. In their relation with international economic bodies the Rumanians seem to have somewhat shifted their position. Whereas, several years ago, they showed some interest in associating Rumania with GATT, this does not seem to be the case any more. The Rumanian leaders are counting more on the market offered by developing countries as manifested by their interest in the recent UNCTAD meeting in New Delhi. In these countries the Rumanians hope to enter into joint ventures with Western partners. In this they might have an advantage over the other East European countries since the political argument in the West tends to favour Rumanians as partners. Although the Rumanians are on principle against supra national organizations they do not follow the Soviet lead in attacking the Common Market. The change in position has also become evident in Rumania's relation with COMECON. The Rumanians have somewhat relaxed their position by opting out of agreements rather than vetoing them. Although they participate in different COMECON committees, they co-operate only on the basis of the "interested party" principle.