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VULNERABILITY AND ECONOMIC PROBLEMS OF  
YUGOSLAVIA, RUMANIA AND ALBANIA

Report by the Committee of Economic Advisers

At its meeting on 4th December, 1968, the Council(1), as part of the contingency studies undertaken within the Alliance, asked the Committee of Economic Advisers to examine the vulnerability and economic problems of Yugoslavia, Rumania and Albania, and to report on its findings along the lines followed in the preliminary report on Yugoslavia(2) which had already been submitted to the Council.

2. The present report has been prepared to meet this request. It attempts to describe the economic means available to the USSR - with or without the assistance of her Warsaw Pact Allies - to influence the policy of these three countries. Its main purpose has not been to assess the likelihood of the use of such means of pressure, although it contains some broad considerations in this respect. Ways in which the members of the Alliance could support the economy of the countries considered are only described as a number of possibilities which, should the need arise, would be open to them. The desirability, from a political point of view, of having recourse to them, would have to be appreciated in the light of the circumstances of the moment.

3. There are significant differences between the three countries considered. While both Yugoslavia and Rumania have about the same population - of the order of twenty million - and a comparable state of economic development, Albania is a much smaller country with only about two million inhabitants, and is still far less developed than the others. Both Rumania and Yugoslavia depend much more on foreign trade than Albania. The geographical distribution of this trade also varies substantially. Albania does not trade at all with the Soviet Union and relatively little with the West; most of her trade is with Communist China and East European countries. More than two-thirds of the trade of Yugoslavia and about half of that of Rumania is carried on with the non-Communist countries.

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- (1) C-R(68)66, Item VI  
(2) C-M(68)66

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At the same time Rumania and, to a lesser extent, Yugoslavia are partly dependent on trade with the Communist countries, with the difference that Rumania is more dependent in this respect on the Soviet Union than Yugoslavia(1). In fact, Yugoslavia has achieved a higher degree of economic independence from COMECON countries than Rumania; since the break of economic relations with these countries in 1948 she has largely benefited from economic co-operation with the West either through bilateral agreements with individual countries or through those international organizations of which she is a member or to which she is associated (IMF, IBRD, OECD, GATT); if she has partly resumed her trade with the Communist countries, this is the result of a deliberate choice. Rumania has only recently and gradually re-directed her trade and increased the share of it with Western industrialised countries while remaining a full - though sometimes difficult - member of COMECON. Given these differences in their economic experience with East and West Rumania might, in certain circumstances, be more inhibited than Yugoslavia in accepting Western economic support. Another difference is that Yugoslavia is implementing far-reaching economic reforms while Rumania and even more Albania maintain a rigid centrally-controlled economy.

4. In such circumstances, the problems which would arise from economic pressures are different in the case of Yugoslavia, Rumania and Albania. The three countries are consequently considered separately in the following paragraphs. These paragraphs represent summaries and conclusions of more thorough studies which, together with essential statistics, are attached at Annex(2). The Committee of Economic Advisers has been able to revise the earlier report on Yugoslavia(3) in the light of an examining session on recent economic developments in that country held in the Sub-Committee on Soviet Economic Policy with the participation of experts from various capitals. The notes on Rumania and Albania have been prepared by the Secretariat and examined by the Committee of Economic Advisers. The reports on these two countries reflect the discussions held in the Committee.

#### I. YUGOSLAVIA

5. Although Yugoslavia has achieved an impressive rate of economic growth since the war, and the longer-term prospects are favourable, her economy is not exempt from certain weaknesses which are partly those of a developing country. Yugoslavia has moved away from the Soviet model of a command economy and is now endeavouring to re-structure her economy

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- (1) See Table at Annex I.
  - (2) See Annex II on Yugoslavia, Annex III on Rumania and Annex IV on Albania.
  - (3) C-M(68)66.

in a more rational way by allowing a freer play of market forces; but it has not been possible to prevent inflationary pressures, high unemployment and a difficult balance of payments situation. Recent efforts to curb inflation have met with partial success but only at the expense of a slowing-down in the pace of economic growth. The situation of the public finances is already strained and it would deteriorate further if military expenditure, which has recently been increased, had again to be stepped up substantially.

6. The economic reforms in Yugoslavia also aim at a fuller participation of the country in world trade. Progress has already been made in developing industrial exports and raising tourist earnings to a high level. But there are still obstacles such as the inadequate quality of some Yugoslav products and restrictions on agricultural imports in the West. The size of Yugoslavia's external debt in convertible currency limits also her possibility of importing from the West.

7. The Warsaw Pact countries are, next to the EEC, Yugoslavia's most important trading partners, accounting in 1967 for about 25% of her imports and about 36% of her exports. Provided she were supplied with the necessary financial assistance, Yugoslavia could probably obtain in the non-Communist world what she at present imports from Communist countries. On the other hand, these countries are particularly important as a market for certain Yugoslav goods - especially tobacco, some other agricultural products, some types of machinery and manufactured goods - and if they applied economic pressure on Yugoslavia, it might be difficult to find alternative outlets for these products. Yugoslavia would thus be burdened with stocks of unsold goods. Economic pressures would therefore aggravate the present economic difficulties of the country. They would hit certain regions and certain sectors - such as shipyards, electric power plants, the steel industry - and might well cause discontent among part of the population. By careful manipulation the Russians might hope to rouse feelings and antagonisms between the various national groups in Yugoslavia, in particular if, at the same time, they hold out bright prospects of new business as a reward for good behaviour.

8. Without waiting for any specific action against Yugoslavia, Western countries might find it desirable to increase their efforts to facilitate that country's fuller participation in the trade of non-Communist countries of the world. The following points might be considered:

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- (a) NATO members could best assist the Yugoslavs by enabling them to increase their hard currency earnings. They could do this by eliminating or reducing quantitative restrictions and other protective measures (especially on agricultural products), by encouraging and facilitating Western investments in Yugoslavia, by helping the Yugoslavs to improve the technology and quality control of their production as well as their marketing techniques, by fostering co-operation projects which would save Yugoslav expenditure in hard currency and by joint projects for marketing in third countries where Yugoslavia is not yet established. Yugoslavia should be encouraged to improve its production and diversify its trade particularly in those sectors now heavily dependent on exports to the USSR so as to minimise the adverse consequences of any possible Soviet economic pressures. If measures were taken to help Yugoslavia, it would be necessary to ensure that the legitimate interests of the developing members of the Alliance were not harmed and to bear in mind that the West also has an interest in the diversification of trade of the East European countries.
- (b) By examining favourably Yugoslavia's requests for re-scheduling of earlier debts and for new credits, either from individual countries or international organizations.

9. Should the Soviet Union, and possibly other Warsaw Pact countries, impose a trade embargo on Yugoslavia, there would be an even stronger case than at present for applying the measures mentioned in paragraph 8 above. Action might be envisaged to ensure a continuous supply of raw materials, fuel and essential manufactured goods. Longer-term export credits, public loans, facilities from the IMF or loans from the IBRD could provide essential support.

10. The USSR and possibly other Warsaw Pact countries might apply selective economic pressures against Yugoslavia. The West might consider it appropriate in such circumstances to take measures devised with the special purpose of relieving the particular difficulties encountered by Yugoslavia. However, in view of the limited influence which Western governments have on the direction of trade in particular products, these measures might not be easy to put into practice. A more convenient solution might be to provide the Yugoslavs with the means of acting themselves through general co-operation in trade and finance.

11. In the light of the experience of 1948, and of the fact that the economic dependence of Yugoslavia upon the Communist countries is now less than it was twenty years ago, it seems that economic pressure or sanctions on the part of the Warsaw Pact countries would again fail to force Yugoslavia to toe the Soviet line. On the contrary, they would be likely to link Yugoslavia closer with the West. For this reason, it seems that extreme economic measures are rather unlikely. If economic pressures were applied they would more probably be of a selective nature, aiming at limited objectives; they might create difficulties for the Yugoslav government and possibly influence somewhat its attitude. In any case, the development of the situation, and in particular, the acuteness of the economic problem which would face Yugoslavia, would depend both on the ability of the Yugoslavs to adjust and re-orientate their economy and on the extent, the readiness and the speed with which the West would offer effective co-operation, including financial assistance.

## II. RUMANIA

12. The Rumanian economy has recently made rapid progress, especially in industry. It still shows several weaknesses: backwardness in agriculture, a low standard of living and an unbalanced pattern of trade. Industrialisation itself has been sometimes hasty and some new factories may not yet be running efficiently. Having too narrow a domestic basis to produce economically, Rumania has to adjust herself to a broader pattern of commercial exchanges. While imports from the West have increased spectacularly over recent years, exports are still lagging behind and, as a result, Rumania is burdened with a very heavy commercial debt to the West.

13. Rumania's economic dependence on other Communist countries, and especially the USSR, has decreased significantly over recent years and now, among the COMECON countries, she is the one which directs the largest share of her trade towards the West. Within COMECON, Rumania has adopted an attitude of great independence. Nevertheless, the share of trade which is still carried out with other Communist countries represents about half the total trade, and the share of the USSR alone is still approaching 30%. Rumania obtains from other COMECON countries substantial quantities of raw materials - such as iron ore, pig iron, sheet steel from the USSR - and she sells them various goods, in particular machinery and equipment, for which she would have difficulty in finding outlets in the West.

14. Past experience shows that there is always the possibility that Communist countries might put economic pressure on Rumania. The West might therefore find it desirable to strengthen the Rumanian position without waiting for any specific action against that country. The following points might be considered:

- (a) NATO members might best assist the Rumanians, and in particular facilitate their efforts towards further diversification of their foreign trade, by enabling them to increase their hard currency earnings by means of some of the measures already envisaged above in the case of Yugoslavia(1). They could do this by eliminating or reducing quantitative restrictions, by helping the Rumanians to improve their marketing techniques, by contemplating co-operation projects which would save Rumanian expenditure in hard currency, and by joint projects for marketing in third countries where Rumania is not yet established. It must be noted, however, that an important aspect of the diversification of Rumania's foreign trade, i.e. the establishment of reliable sources of raw materials outside Eastern Europe, is largely outside the scope of NATO governments. In taking measures to help Rumania, NATO countries should see to it that the legitimate interests of the developing members of the Alliance are not harmed, and it should be borne in mind that the West has also an interest in the diversification of trade of other East European countries.
- (b) It might be necessary to reconsider credit arrangements in order to grant increased credits for trade with Rumania or to rephase Rumania's external debt repayments.
- (c) The Rumanians recently applied for membership to GATT, and a working party in which ten NATO countries are represented was set up in order to examine the application. There might be political as well as economic value in finding a satisfactory arrangement for Rumanian accession to that Organization.
- (d) Countries which have not yet extended most favoured nation treatment to Rumania might consider the possibility of doing so.

15. Should the Soviet Union, and possibly other Warsaw Pact countries, apply economic pressure or sanctions on Rumania, Western countries might resort to some of the measures already envisaged above in favour of Yugoslavia in similar circumstances(2). In the case of a total embargo they might consider it appropriate to assist Rumania in procuring the raw materials to keep her industry running. This might require special loans on a bilateral basis or as part of a concerted effort. The necessary re-orientation of Rumanian exports might also be facilitated. There would be an even stronger case than in present circumstances for removing quotas and other obstacles to trade.

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(1) See paragraph 8(a) and (b)  
(2) See paragraphs 9 and 10

16. The USSR and possibly other Warsaw Pact countries might apply selective economic pressures against Rumania. In such circumstances - as has been already envisaged in the case of Yugoslavia under a similar assumption - the West might consider it appropriate to take measures devised with the special purpose of relieving Rumania of the particular difficulties she would encounter. However, as has already been indicated above, in view of the limited influence which Western governments have on the direction of trade in particular products, these might not be easy to put into practice. Here again, a more convenient solution might be to provide the Rumanians with the means of acting themselves through general co-operation in trade and finance.

17. Should the Soviet Union be determined to bring Rumania to heel, she could apply political and military, as well as economic, pressures. There are circumstances in which Rumania would not be in a position to co-operate with the West, or might be inhibited from doing so. In order to avoid provoking escalation of Soviet pressure, the response of Western countries to Rumanian economic needs should no doubt be handled in a very undramatic way as normal (albeit increased) commercial activity. Whether help should be given by Western countries and in what form would depend largely on the Rumanians themselves. Although consultations on the economic policy to be followed might take place in NATO, it might be appropriate in the implementation of this policy for member countries to act individually, taking account of their different possibilities and interests.

18. Circumstances might arise where the West would wish to apply to some other Eastern European countries certain measures outlined above, especially those described in paragraph 14. On the other hand, it is unlikely that strong economic pressure or sanctions would be applied by the Soviet Union and some other Warsaw Pact countries to more than one Eastern European country at the same time.

### III. ALBANIA

19. The small size of the country, the fact that it is economically underdeveloped, its great dependence on foreign aid, financial and technical, are indications of the weakness of the Albanian economy. Agriculture, which is primitive in character, is not in a position to meet the needs of the rapidly growing population. Besides, Albanian resources are not sufficiently developed nor its industry, in particular, advanced enough to make it possible to cover imports, essential for economic developments, by means of exports of raw materials or manufactured products.

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20. Since the second world war, 90% of Albania's foreign trade has been with Communist countries, and until 1961 the USSR exerted the major influence on the country's development by means of trade and of technical and economic aid. As Albania took sides with Communist China, the Soviet Union broke off commercial relations with her and ceased economic aid. Faced with this new situation, Albania, rather than trying to draw closer to the West, turned to China, which quickly took the place of the Soviet Union as chief trading partner and supplier of financial and technical aid. So far, the Albanian leaders have refrained from seeking any economic aid from the West.

21. Since that time the USSR has been without any means of exerting economic pressure on Albania, and can operate on the economic plane only through the intermediary of other COMECON countries. Albania's present vulnerability is due essentially to the development of trade with Warsaw Pact countries other than the USSR. Czechoslovakia and, to a lesser extent, Poland and the Soviet Occupied Zone of Germany, offer valuable outlets for Albania's growing industry which would be difficult to replace, as well as an important source of capital and transport equipment necessary for industrialisation.

22. There are various possibilities as regards economic pressure on Albania by Communist countries:

- (a) If pressures by the COMECON countries - inspired probably by the USSR - were exerted, they might well slow down the economic development of Albania. The expectations of improvements in the living conditions of the population might, to a certain extent, be jeopardised. It seems, however, that in spite of demographic pressure, the population already inured to harsh conditions could put up with the privations which would follow. Albanian agriculture and imports of foodstuffs from China would probably ensure the necessary subsistence minimum. In the last resort a lot would depend on China's attitude. It is likely that she would be in a position to help by stepping up her trade and aid, especially since the increments required would be relatively small. It is therefore not at all certain in such a case that Albania would seek aid on a big scale from the West, though the latter would certainly have an opportunity of improving its economic relations with Albania.
- (b) In the extremely unlikely case of the European Communist countries and China imposing economic sanctions on Albania at the same time, the latter's position would be more serious still. She might then be forced to turn to the West for support.



- (c) Should China, acting alone, decide to cease supporting Albania, the latter could turn instead for economic aid either to the COMECON countries or the West. It is likely she would approach both at the same time.

23. If it would appear to be in the long-term interest of the West to loosen the dependence of Albania on other Communist countries by developing economic relations with her, this would primarily imply that the Albanians would have to make such a policy feasible. Besides, at the purely commercial level, the possibilities of developing trade are limited, given the small range of products and their indifferent quality. Should, however, circumstances induce the West to accord economic aid to Albania, given the smallness of the country, the dimensions of the task would present no great problem, either as regards raw materials and manufactured products required for the development of the Albanian economy or the financial aid needed. Technically speaking, bilateral trade and clearing agreements might be the best way of supporting the Albanian economy. The bilateral aspect of such agreements would in no way be incompatible with a certain co-ordination of policy towards Albania among members of the Alliance. It would only be in the much longer term that this country could benefit from economic co-operation with the non-Communist world within the framework of the international economic organizations such as the International Monetary Fund and the International Bank for Reconstruction and Development.

(Signed) A. VINCENT  
Chairman

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	Yugoslavia	Rumania	Albania
Population (million)	20	19	2
GNP per head (US \$)	750	940	250
Total Foreign Trade Turnover (1967) (million US \$)	2,959.0	2,941.4	174.9
Trade with Communist countries as % of total trade	<u>31</u>	<u>51</u>	<u>91</u>
of which with:			
- USSR	13	28	0
- Eastern Europe(1)	17(2)	19(3)	42(3)
- Communist China and others(4)	negl.	4	49
Trade with Yugoslavia as % of total trade		1	3
Trade with industrialised Western countries as % of total trade	56	41	6
Trade with developing countries as % of total trade	13	7	negl.

- (1) Bulgaria, Czechoslovakia, Hungary, Poland, Rumania, Soviet Zone.
- (2) Including just over 1% for trade with Rumania.
- (3) Albania's trade with Rumania amounts to 4% of total Albanian trade, while the share of Albania in total Rumanian trade is negligible.
- (4) Albania, Cuba, Mongolia, North Korea, North Vietnan.

YUGOSLAVIA

1. The present note(1) on the vulnerability and economic problems of Yugoslavia deals successively with the following points:

- main economic problems;
- developments in economic relations with Communist countries and means of pressure at the disposal of these countries;
- developments in economic relations with the West and possibilities of supporting the Yugoslav economy.

I. MAIN ECONOMIC PROBLEMS

2. Rich in resources and promising in potential, Yugoslavia has one of the least developed economies in Europe. Its per capita gross national product of about \$750 is lower than that of her Warsaw Pact neighbours Rumania (\$940) and Bulgaria (\$1,000)(2). The largest part of its population of 20 million still makes its living from agriculture and there is considerable unemployment: 338,000 in the socialised sector alone, whereas 400,000 are working abroad. The six Yugoslav republics and two autonomous regions present sharp contrasts in economic development. The per capita GNP of Slovenia, the richest area, is five times higher than that of Kosovo and Methohija, the most backward. The Federal Constitution, adopted to facilitate the co-existence of the various national groups, makes the management of the economy more difficult and leads in some cases to duplication of effort and waste of resources.

3. Yugoslavia is simultaneously trying to overcome her economic under-development and striving to correct the effects of ill-orientated investments due first to rigid planning and later to unco-ordinated decisions by local authorities and Workers' Councils. As it is normal for a country at an early stage of development, Yugoslavia needs a considerable inflow of capital. In fact, the country has

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(1) This note takes account of the basic note submitted by the Italian Delegation, (AC/89-WP/264), a note submitted by the United States Delegation, (AC/89-WP/265), and notes from the Canadian (AC/127-WP/233) and German (AC/127-WP/233/1) Delegations.

(2) GNP figures are drawn from a study by the United States Authorities and, as far as possible, have been calculated on a comparable basis.

benefited from considerable financial aid and loans from international organizations and Western governments and institutions. In the past few years she has also relied heavily on commercial credits. Such loans and credits have resulted in an accumulation of debt repayments, which has led her to approach a number of Western countries about re-scheduling arrangements. In spite of some increase in 1968, reserves are still modest in view of Yugoslavia's trade liberalisation measures and aims.

4. Yugoslavia has made original experiments in an attempt to combine socialism with a market economy. In agriculture, private property has been retained but the strict limitation of the size of private holdings seriously hampers modern farming. In industry a large degree of autonomy has been granted to enterprises which remain under "social" ownership and are managed by Workers' Councils. Further moves towards a market economy were made in 1965 with a series of new reforms. The main responsibility for the financing of investment was transferred from public authorities to the enterprises themselves and to the banking system. Agricultural prices were increased substantially and "political" prices for some basic products were abolished. However, the economic reform launched in 1965 has not yet been fully implemented. Prices have not been completely liberalised (almost one-half still remain controlled) and there has been no move further to liberalise imports and foreign exchange regulations since the beginning of 1967.

5. Although the transition from a centralised to a market economy has proved laborious and has confronted the Yugoslavs with greater difficulties than they originally expected, significant advances have been made since the introduction of the 1965 reforms. Agriculture has progressed, aided by good weather, and there has been a speeding up in the modernisation of infrastructure (railways, roads, electric power) and basic industry (iron and steel, non-ferrous metals, chemicals and petroleum products). Some progress has also been made towards increased specialisation in production and in the allocation of investment funds, the operation of the banking system and credit regulations. A notable, though perhaps temporary, achievement of recent years has been the curbing of inflationary pressure through credit restrictions introduced in 1966 and 1967. Unfortunately these led in 1967 to a general stagnation and a further increase of the already high unemployment. Following an upsurge of the economy in 1968 the dangers of another inflationary cycle are again present, but the Government appears determined to act resolutely to check any serious trends in this direction, and to continue the course of economic reform.

6. It appears doubtful that the need for government intervention in the economy can be significantly reduced in the foreseeable future because, as the 1968 performance shows, the economy remains vulnerable to fairly strong inflationary pressures, balance of payments difficulties and a scarcity of trained managers. Nevertheless, the Yugoslav Authorities continue to believe that improvements in the structure and efficiency of the Yugoslav economy can best be achieved through greater exposure to foreign competition and the freer operation of market forces. The decentralisation of economic life and the change to indirect Western style methods of managing the economy which has already taken place is closely related to the growth of freedom of expression within the country, the development of parliamentary institutions and the diminishing of the rôle of the Party in economic life. Growing orientation to world markets and the right of relatively free entry and exit make Yugoslavs increasingly aware of Western values.

7. The Federal budget for 1969, amounting to 11,546.5 million dinars (\$923.7 million) provides for a 12.5% increase in expenditures over the 1968 figures. This rise is the consequence of increased outlays in connection with the realisation of the main objectives of the 1966-1970 plan and of the reforms, increased military expenditures and increased subsidies to the less developed republics of the Federation. The largest rise is in the defence budget which amounts to 6.933 billion dinars (\$555 million), i.e. 926.5 million dinars (\$74 million) more than in the original 1968 defence budget. The share of military expenditures in the total Federal budget is 60%. Increased military expenditures - following the invasion of Czechoslovakia - could increase inflationary pressures and also create balance of payments problems which, however, cannot be assessed accurately as it is not known what amount of goods, which could otherwise be exported for hard currency, will now be diverted to the military and what military hardware will be purchased from the West.

8. The balance of trade, which had shown a very large deficit during the preceding years, improved in 1965 and 1966. However, the situation deteriorated in 1967 as the deficit rose from \$354 million in 1966 to \$456 million in 1967, and worsened still further in 1968 when it may have reached about \$530 million. However, the 1968 figure comprises a deficit in trade with Communist countries (of the order of \$70 million) which reflects an intentional Yugoslav policy of running down, by increasing imports, earlier surpluses in clearing accounts with these countries. The trade deficit is offset, to a substantial extent, by invisible receipts mainly from tourism, emigrants' remittances

and transport. Gross receipts from tourism have been rising; they amounted to \$150 million in 1967 and are estimated at \$230 million for 1968. Workers' remittances, which amounted to \$90 million in 1967, have been estimated at \$160 million for 1968. As regards transportation, net receipts in 1967 were \$132 million. However, the surplus on invisible transactions has not yet been sufficient to cover the trade deficit and the servicing of the foreign debt.

9. The total indebtedness of Yugoslavia at the end of 1967 amounted to \$2.2 billion, broken down as follows: loans from international organizations \$393 million, bilateral creditors (suppliers' and bank credits) \$917 million, official government loans in convertible currencies \$568 million, Communist countries' loans \$310 million, loans repayable in dinars \$317 million. Out of the total of \$2.2 billion, Yugoslavia had actually received at the end of 1967 \$1.6 billion of which \$1.3 billion repayable in hard currencies. As can be seen from these figures the external debt has reached a very high amount and its servicing places a heavy burden on the balance of payments. It has been estimated that payments in this respect will rise from about \$240 million in 1967 to some \$350 million in 1968 and will remain at some \$260 million up to 1970. The debt service alone has been estimated as representing about 25% of Yugoslav convertible exchange earnings. The difficulties experienced by Yugoslavia in her foreign payments led her, towards the end of 1967, to re-establish some trade restrictions.

## II. DEVELOPMENTS IN ECONOMIC RELATIONS WITH COMMUNIST COUNTRIES AND MEANS OF PRESSURE AT THEIR DISPOSAL

10. After the war, a very large proportion - nearly half in 1948 - of Yugoslavia's foreign trade was directed towards Communist countries(1). This trade practically came to an end when Yugoslavia broke away from the Cominform in mid-1948 and it was not until 1955 that there was a gradual resumption. In 1967 about 25% of Yugoslavia's imports came from European Communist countries, which took about 36% of her exports(2). Although these percentages are smaller than in 1948 when the break with the Cominform took place, they are still considerable.

11. In December 1968 Yugoslavia signed trade protocols with all Warsaw Pact countries covering trade in 1969. The main agreement concluded with the Soviet Union, provides for two-way trade amounting to \$400 million, of which \$364 million are within the trade protocol, and the balance is covered by

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(1) See Table VII attached.

(2) For the first eleven months of 1968 respective percentages were 27% for imports and 33% for exports.

special agreements annexed to it. The Yugoslavs are expecting supplementary arrangements between economic organizations of the two countries which would bring the total value of trade in both directions to about \$500 million. Yugoslavia is particularly dependent on the Soviet Union for her imports of crude oil, rolled and drawn steel, pig and cast iron, coal, synthetic rubber, aluminium, cotton and coking pit coal. The Soviet Union is also a very large buyer of the following Yugoslav products: manufactured goods, machinery and transport equipment, chemicals, beverages and tobacco. Yugoslav shipyards are heavily dependent on Soviet orders for their production. In 1967 the USSR bought 56% of Yugoslav total ship exports in the framework of a five-year agreement (for the period 1966-1970) according to which Yugoslavia will deliver to the USSR 78 sea-going vessels, valued at over \$300 million. Negotiations regarding Soviet ship purchases after 1970 have not yet begun; it is not clear, however, whether this absence of negotiations is due to commercial and economic considerations or whether the Russians are using it as a form of pressure on Yugoslavia. The Yugoslavs have been concerned about delays in completing projects involving Soviet equipment. Even in the present conditions, Yugoslavia's policy seems to be one of maintaining and developing trade with the USSR. For instance, a Yugoslav firm has recently reached agreement to deliver automobile parts and the Yugoslavs are also attempting to sell rolling stock to the Soviet Union.

12. Since 1965, Yugoslavia has concluded three credit arrangements with the Soviet Union amounting to \$233 million to be used in the period up to 1971. One credit of \$40 million is linked to the "Iron Gates" hydro-electric power system; it will be used to purchase technical, building and installation equipment; a most important part of this equipment is represented by six turbines and three generators, which the Soviets are committed to deliver in 1968 and 1969. The second credit of \$33 million is being used for the reconstruction of Skopje - it provides for the delivery between 1967 and 1971 of equipment for the building of a number of factories. The third and most important credit of \$160 million is being used for the purchase of equipment for thermo-electric power plants, the development of certain steelworks, the building and expansion of lead and zinc mines.

13. After OECD Europe (49.2%), the Eastern European countries, together, are the most important trading partners of Yugoslavia; in 1967 their share in Yugoslav total foreign trade was about 18% as against 13% for the USSR which came in third position. Among Eastern European countries, Czechoslovakia is the main trading partner followed by the Zone and Poland. In 1967 trade with these three countries

represented 12.4% of Yugoslav total trade turnover. Rumania is practically at the bottom of the Eastern European countries league with 1.5% of Yugoslavia's total trade; short-term prospects for a substantial increase of Rumania's share appear remote because neither country presently produces a sufficient assortment of high quality goods which would interest the other. The Yugoslavs have, however, indicated their desire to broaden industrial co-operation with Rumania in order to expand economic relations and open up new trade possibilities. According to information given recently in the Yugoslav press two-way trade with Eastern European countries is expected to increase in 1969. On the basis of the fragmentary data obtained on the 1969 trade agreements, commodity lists provide for trade amounting to about \$720 million, with Czechoslovakia always at the top of the list. This target - which is an indication of Yugoslavia's desire to maintain and develop her trade with that area - appears ambitious and, judging from past performance, it is not very likely to be achieved (two-way trade amounted to \$510 million in 1967(1) and has been estimated at \$460 million for the first eleven months of 1968(2)). Eastern European countries represent an interesting market for the following Yugoslav products: tobacco, bauxite, veneers, rolling stock, transport equipment, refined lead, ships, electrical machinery and appliances, wires and cables, wood furniture, clothing and footwear. On the other hand, Yugoslavia imports the following main commodities: rolled and drawn steel, pig and cast iron, coke, fertilizers, synthetic rubber, sugar, machinery and transport equipment.

14. Yugoslavia has been participating, since September 1964, in certain COMECON committees, but she cannot attend the meetings of the Executive Committee unless invited to do so. Yugoslavia has avoided getting too closely linked to COMECON with whom she is far from satisfied. Being more involved in world trade, Yugoslavia is particularly unhappy about the artificial pricing system prevailing in COMECON. A main source of pre-occupation for Yugoslavia has been the building up since 1965 of large surpluses in exchanges of goods and services amounting to about \$100 million in October 1968. As has already been indicated above(3) it is the deliberate policy of Yugoslavia to run down these surpluses. In times of tension their existence might put Yugoslavia into difficulty should agreement for their utilisation not be forthcoming. Yugoslavia, a strong supporter of multilateralism in trade and payments, is seeking to introduce such elements into the COMECON system and into trade relations with its COMECON partners.

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(1) Source OECD Trade Statistics

(2) Source Yugoslav Statistics

(3) See paragraph 8.



15. After the break in 1948, it turned out that imports from the Soviet bloc could be quickly replaced, especially as large credits and financial assistance to Yugoslavia were provided by the West. On the other hand, there were difficulties in finding outlets for the products previously sold to Communist countries, and Yugoslav exports never reached their 1948 level as long as trade with the Soviet bloc was cut off.

16. A complete interruption by Warsaw Pact countries of their trade with Yugoslavia appears as a remote possibility which would only take place in the framework of other measures in the political and military fields. Yugoslavia's present condition is quite different from that of 1948. Admittedly the economy is still grappling with a number of serious problems but, on the whole, trade is far more diversified now than it was twenty years ago; the non-Communist countries can provide any of the goods required by Yugoslavia while the latter disposes of a wider range of products for export. Moreover, if the Soviet Union decided to apply an economic embargo, some of her COMECON partners, in particular Rumania and Czechoslovakia, would be reluctant to follow her example. It would seem that the Soviet Union would stand to lose more than she would gain from any drastic economic action against Yugoslavia, as it would push that country still further into the Western camp and create new friction within COMECON.

17. The nature of Soviet/Yugoslav economic links seems to indicate that the USSR could try and influence Yugoslavia either by selective discriminatory economic measures or by the more subtle method of dangling the carrot in front of the Yugoslavs rather than waving the stick. Certain Yugoslav developing industries badly need export markets to supplement insufficient home consumption and finance essential imports of basic materials; by promising to make certain purchases, or threatening to withdraw previous orders in the less developed republics of the Federation, the USSR may exert a form of pressure on Yugoslavia which could create considerable difficulties for that country.

18. Other possible means of economic pressure on Yugoslavia by COMECON countries would be the stoppage of their tourism to that country (which accounts for some 14% of total Yugoslav earnings of this nature) and the interruption of transit trade which allows Yugoslavia to earn some \$50 million annually. Whereas the ending of tourism would not involve COMECON countries in particular difficulties, the dislocation of transit trade would oblige these countries to find alternative routes through Western countries, a solution which, politically, might be even less attractive to the Russians than the present one.

19. Thus Yugoslavia remains open to pressures from COMECON countries. These could apply a whole range of selective measures, from dilatoriness in deliveries of commodities critical to the Yugoslav economy to refusal - on more or less specious grounds - to conclude new procurement arrangements. To sum up, Yugoslavia's vulnerability lies in four specified areas:

- (i) the shortage of convertible currency which would make it very hard for Yugoslavia to find alternative sources of supply unless she was provided by the West with means of payments;
- (ii) the procurement in the West of certain machinery and transport equipment needed to complete or expand factories already equipped with Soviet-built machines (and spare parts for these) might prove quite difficult;
- (iii) the shift of certain Yugoslav exports from Communist countries to the Free World might be particularly difficult, for instance, Communist countries take 52% of chemical products, 58% of machinery and transport equipment and 41% of other manufactured goods. An interruption of Communist orders may hit certain industries such as the shipyards, and in particular inflict a heavy blow on some inefficient or technologically backward Yugoslav industries whose main export markets are in the COMECON area;
- (iv) the latent dissatisfaction of the less developed republics of the Federation with the rate of their economic progress could be exploited by Communist countries by careful manipulation of their trade with these areas.

20. Should relations with the East deteriorate further, a very difficult situation would arise for Yugoslavia owing to the fact that most of the equipment in her forces has come, in recent years, from the Soviet Union and other Warsaw Pact countries. She would be deprived of the spare parts necessary for the maintenance of this equipment and this would reduce considerably the effectiveness of her forces, unless substantial military assistance were received from elsewhere.

III. DEVELOPMENTS IN ECONOMIC RELATIONS WITH THE WEST AND  
POSSIBILITIES OF SUPPORTING THE YUGOSLAV ECONOMY

21. The share of the non-Communist countries in Yugoslavia's total trade declined from almost 100% in 1952-1954 to some 65% in 1965, as her trade with Communist countries was gradually resumed(1). However, these percentages may give a somewhat wrong impression as, in absolute terms, there has been a significant increase in Yugoslavia's trade with non-Communist countries - at an annual rate of some 10% since 1955. In 1967, the share of non-Communist countries in Yugoslavia's trade had increased to 69%: that of Western Europe was about 49%, that of North America 7% and that of the Third World not quite 13%(1).

22. Should economic pressure be applied by the Warsaw Pact countries to Yugoslavia, the latter might possibly expand somewhat her trade with the developing countries, where she could find some of the raw materials currently bought in Communist Europe and perhaps some increased outlets. So far Yugoslavia's trade with the Third World has been stimulated by the granting of credits. She might not be in a position to pursue this financial policy on a very large scale but, by increasing her own imports, she would enable her trading partners to make additional purchases.

23. The desire to hedge against any future rupture in relations with Warsaw Pact countries will provide additional motive for the Yugoslavs to broaden their economic relations with the non-Communist countries. Inherent difficulties in trade, stemming from differences in trade systems and the problems of bilateral clearing arrangements may, in any case, cause a decrease in the share of COMECON trade with Yugoslavia. Quite apart from the eventuality of economic pressure, it might be in order for the West to examine the possibility of reducing or eliminating some of the quantitative restrictions which still hamper Yugoslav exports. This might be achieved mostly through bilateral negotiations as far as industrial products are concerned. On the other hand, for agricultural products, there would be special difficulties, as any significant progress would involve some revision in the agricultural policy, not only of some individual countries, but also of the European Economic Community.

24. Since 1948 North America and several countries of Western Europe, in particular Italy, the United Kingdom and France, have provided large loans or export credits to Yugoslavia in order to help her meet her balance of payments deficits. The largest contribution has come from the United States and amounts to some \$2.9 billion (economic loans \$976 million, economic grants \$1.2 billion, military aid

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(1) See Table I.

§698 million). In recent years, Yugoslavia has increasingly resorted to short and medium-term commercial loans, and a bulge in debt repayments from these and earlier credits has arisen which has led her to seek the re-scheduling of her debt repayments with a number of Western countries. So far Yugoslavia, contrary to many other developing countries, has not benefited from an influx of foreign investments which would have offset to some extent the repayment of previous debts. This situation may now be modified following the passing by Yugoslavia in the summer of 1967 of legislation authorising, on certain conditions, foreign investments in the Yugoslav economy. A major disruption in Yugoslav/COMECON countries' trade would have serious consequences on the Yugoslav balance of payments; hence the most effective way of assisting Yugoslavia to make a fairly rapid adjustment would be for the West to extend financial assistance. In this connection, it may be worth considering whether political reasons may warrant the extension of grants, loans and credits to Yugoslavia which, under the normal criteria of solvency and credit worthiness, might not be granted.

25. The fact that Yugoslavia belongs to, and has good relations with, most international organizations of the Free World, would make it easier to assess her economic requirements in an emergency and to find the appropriate means of supporting her economy:

- (i) Since 1966 Yugoslavia has been a full member of GATT. She acceded to that international body after a series of bilateral and multilateral negotiations, as a result of which a number of quotas hampering her trade with the West were reduced or eliminated. Yugoslavia has also participated in the Kennedy Round, which resulted in the reduction of tariffs on industrial goods. However, there are only very limited possibilities within GATT to facilitate the export of Yugoslav agricultural products, which raises serious problems.
- (ii) Since 1961, Yugoslavia has had observer status within the OECD and participates in several committees concerned with annual examination of economic policies, with agriculture and fisheries, scientific research and technical co-operation. She benefits also from the OECD's technical assistance projects. While the OECD, in case of emergency would be most helpful in assessing Yugoslavia's requirements, it is not in a position to render practical assistance.

- (iii) On the other hand, Yugoslavia might receive some short-term financial assistance from the IMF, of which she is a full member. However, at the end of 1968 she had practically exhausted her borrowing facilities, and her drawings amounted to \$140 million. It is understood that the IMF has accepted to extend for another two years the maturity of a three-year loan amounting to \$50 million. On 5th July, 1968, Yugoslavia became a member of the International Finance Corporation (IFC), which is an affiliate of the World Bank. This Corporation is currently examining the possibility of extending loans to a number of Yugoslav enterprises. The World Bank (IBRD) has already provided a very large contribution to Yugoslavia's economic development in the form of long-term loans, in total these have exceeded \$330 million.
- (iv) With the EEC, Yugoslavia has started negotiations for the conclusion of a non-preferential trade agreement. These negotiations are considered by both parties as very important, bearing in mind that the European Economic Community is the main trading partner of Yugoslavia and that agricultural products represent some 45-47% of Yugoslavia's exports to the Common Market. Yugoslavia has emphasised, during these negotiations, that these exports declined substantially in 1968 as a result of the common agricultural policy of the Community. Various possibilities remedying the situation have been considered but the terms of reference of the negotiators, which prevent any change in the present arrangements as regards agricultural products, make substantial progress difficult to achieve.

TABLE I  
EVOLUTION OF GEOGRAPHICAL DISTRIBUTION  
OF FOREIGN TRADE

(as percentage of total)

	<u>1948</u>	<u>1952</u>	<u>1955</u>	<u>1960</u>	<u>1963</u>	<u>1966</u>	<u>1967</u>
1. <u>Communist countries</u>	46.6	-	9.2	28.3	24.5	33.8	30.9
USSR	11.9	-	n.a.	7.9	8.6	12.1	13.0
Others	34.7	-	n.a.	20.4	15.9	21.7	17.9
2. <u>Free World</u>	53.4	100.0	90.8	71.7	75.5	66.2	69.1
Western Europe	42.3	71.5	51.3	47.0	44.2	40.5	49.2
North America	3.1	17.3	24.6	9.2	12.6	10.0	7.0
Others	8.0	11.2	14.9	15.5	18.7	15.7	12.9

TABLE II  
MAIN TRADING PARTNERS  
(1967)

In % of total trade (exports + imports)		In % of total imports		In % of total exports	
Italy	15.3%	F.R. Germany	16.7%	Italy	18.0%
USSR	12.9%	Italy	13.4%	USSR	17.5%
F.R. Germany	12.9%	USSR	9.6%	F.R. Germany	7.7%
United States	6.9%	United States	7.3%	United States	6.3%
Czechoslovakia	4.9%	Czechoslovakia	5.5%	Soviet Occupied Zone	5.0%
United Kingdom	4.6%	United Kingdom	5.3%	Czechoslovakia	4.0%
Soviet Occupied Zone	4.4%	France	4.7%	Austria	3.8%
France	3.6%	Soviet Occupied Zone	4.0%	United Kingdom	3.7%
Austria	3.6%	Austria	3.4%	Poland	3.7%
Poland	3.0%	Poland	2.4%		

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TABLE III

GEOGRAPHICAL DISTRIBUTION OF YUGOSLAVIA'S IMPORTS IN 1967  
BY MAIN COMMODITY GROUPS

Commodity Groups	World Total	NATO countries	USSR	Soviet Zone	Poland	Czecho-slovakia	Hungary	Rumania	Bulgaria	(million US \$)	
										European countries	Total Communist countries
Total	1,707.2	918.7	163.8	68.7	41.5	94.6	31.7	21.7	19.6	441.6	
0. Food and live animals	174.6	63.9	14.1	3.4	1.5	4.5	3.2	4.2	5.5	36.4	
1. Beverages and tobacco	7.5	2.9	0.4	0.3	0.2	0.2	0.0	-	0.5	1.6	
2. Crude materials, inedible, except fuels	198.8	68.4	21.8	3.0	2.1	5.2	0.6	2.0	1.9	36.6	
3. Mineral fuels, lubricants and related materials	84.6	15.3	31.5	0.3	2.0	1.7	1.4	2.7	0.5	40.1	
4. Animal and vegetable oils and fats	30.7	17.0	10.5	0.2	0.0	0.9	-	-	-	11.6	
5. Chemicals	167.3	101.4	13.6	8.2	2.6	4.2	4.1	1.2	3.8	37.7	
6. Manufactured goods classified chiefly by material	401.8	209.9	40.7	15.5	17.1	35.6	12.5	10.4	5.9	137.7	
7. Machinery and transport equipment	571.7	403.2	27.2	29.5	14.4	35.6	7.0	0.9	0.6	115.2	
8. Miscellaneous manufactured articles	69.9	36.6	4.0	8.3	1.6	6.6	2.8	0.3	0.9	24.5	
9. Non-classified commodities	0.3	0.1	-	-	-	0.1	0.1	-	0.0	0.2	

Source: OECD Statistics

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TABLE IV

## GEOGRAPHICAL DISTRIBUTION OF YUGOSLAVIA'S EXPORTS IN 1967

## BY MAIN COMMODITY GROUPS

(million US \$)

Commodity Groups	World Total	NATO countries	USSR	Soviet Zone	Poland	Czechoslovakia	Hungary	Rumania	Bulgaria	Total European Communist countries
Total	1,251.7	542.6	219.1	63.0	45.9	50.1	30.1	22.8	19.9	450.9
0. Food and live animals	285.2	219.7	4.1	5.7	0.3	6.6	0.5	0.8	2.2	20.2
1. Beverages and tobacco	51.0	21.0	10.8	9.8	1.7	3.4	0.4	0.4	0.2	26.7
2. Crude materials inedible, except fuels	106.2	60.5	6.9	6.5	3.5	3.2	3.1	3.9	1.1	28.2
3. Mineral fuels, lubricants and related materials	22.5	11.4	0.1	0.0	0.0	0.1	0.5	0.0	0.2	0.9
4. Animal and vegetable oils and fats	2.3	1.9	-	0.1	-	0.2	-	-	-	0.3
5. Chemicals	74.1	19.5	23.4	2.0	1.4	0.7	1.9	1.5	7.3	38.2
6. Manufactured goods classified chiefly by material	280.7	115.4	30.3	10.9	15.4	12.5	9.6	10.5	5.9	95.1
7. Machinery and transport equipment	254.7	32.5	69.8	21.3	20.8	17.7	12.3	5.0	1.8	148.7
8. Miscellaneous manufactured articles	173.8	60.1	73.7	6.7	2.7	5.7	1.8	0.7	1.2	92.5
9. Non-classified commodities	1.2	0.6	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1

Source: OECD Statistics

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TABLE V

## RELATIVE IMPORTANCE OF MAIN COMMODITY GROUPS IN YUGOSLAV FOREIGN TRADE

(in % of total)

Commodity Groups	Imports from			Exports to		
	World	European Communist Countries	NATO Countries	World	European Communist Countries	NATO Countries
0. Food and live animals	10.2	8.2	7.0	22.8	4.5	40.5
1. Beverages and tobacco	0.4	0.4	0.3	4.0	5.9	3.9
2. Crude materials inedible, except fuels	11.6	8.3	7.4	8.5	6.2	11.2
3. Mineral fuels, lubricants and related materials	5.0	9.1	1.7	1.8	0.2	2.1
4. Animal and vegetable oils and fats	1.8	2.6	1.9	0.2	0.1	0.3
5. Chemicals	9.8	8.5	11.0	5.9	8.5	3.6
6. Manufactured goods classified chiefly by material	23.5	31.2	22.8	22.4	21.1	21.3
7. Machinery and transport equipment	33.5	26.1	43.9	20.3	33.0	6.0
8. Miscellaneous manufactured goods	4.1	5.5	4.0	13.9	20.5	11.0
9. Non-classified commodities	0.1	0.1	-	0.2	-	0.1
0 - 9 Total	100	100	100	100	100	100

Source: OECD Statistics

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TABLE VI

YUGOSLAVIA'S TRADE WITH EUROPEAN COMMUNIST COUNTRIES AS A PERCENTAGE  
OF NATO COUNTRIES' TOTAL TRADE IN 1967

Commodity Groups	NATO countries' trade with whole world (in million US \$)		Yugoslavia's trade with European Communist countries (in million US \$)		(4) as a percentage of (1)	(3) as a percentage of (2)
	Imports (1)	Exports (2)	Imports (3)	Exports (4)		
0. Food and live animals	18,634.4	12,513.3	36.4	20.2	0.11	0.29
1. Beverages and tobacco	2,094.7	2,323.1	1.6	26.7	1.27	0.07
2. Crude materials inedible, except fuels	14,898.0	9,429.3	36.6	28.2	0.19	0.39
3. Mineral fuels, lubricants and related materials	12,342.6	4,479.2	40.1	0.9	0.01	0.90
4. Animal and vegetable oils and fats	915.4	707.4	11.6	0.3	0.03	1.64
5. Chemicals	7,050.5	10,962.0	37.7	38.2	0.54	0.34
6. Manufactured goods classified chiefly by material	24,834.6	25,199.7	137.7	95.1	0.38	0.55
7. Machinery and transport equipment	26,597.8	41,192.3	115.2	148.7	0.56	0.28
8. Miscellaneous manufactured goods	9,106.2	9,205.6	24.5	92.5	1.02	0.27
9. Non-classified commodities	2,527.1	2,084.1	0.2	0.1	negl.	0.01
0 - 9 Total	119,015.4	118,096.0	441.6	450.9	0.38	0.37

Source: OECD Statistics  
Negl. = Negligible: less than 0.01%

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TABLE VII

YUGOSLAVIA'S TRADE WITH EUROPEAN COMMUNIST COUNTRIES  
AS A PERCENTAGE OF HER TOTAL EXTERNAL TRADE IN 1967

Commodity Groups	% of imports	% of exports
0. Food and live animals	20.8	7.1
1. Beverages and tobacco	21.3	52.4
2. Crude materials, inedible, except fuels	18.4	26.6
3. Mineral fuels, lubricants and related materials	47.3	4.0
4. Animal and vegetable oils and fats	37.8	13.0
5. Chemicals	22.5	51.6
6. Manufactured goods classified chiefly by material	34.3	33.9
7. Machinery and transport equipment	20.1	58.4
8. Miscellaneous manufactured articles	35.1	53.2
9. Non-classified commodities	66.7	8.3
0 - 9 Total	25.9	36.0

Source: OECD Statistics

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RUMANIA

1. This paper, on the economic problems and vulnerability of Rumania follows as closely as possible the pattern of the preceding study on Yugoslavia. It deals therefore with the:

- main economic problems;
- relations between Rumania and Communist countries and means of pressure at the disposal of the latter;
- developments in economic relations with the West and possibilities of supporting the Rumanian economy.

I. MAIN ECONOMIC PROBLEMS

2. Although Rumania is well endowed with natural resources and has achieved over the last decade a very high rate of industrialisation, she has still serious economic problems to solve: the modernisation of her agriculture, the improvement in the standard of living of her population and the adjustment of her relatively small economy to the broader pattern of international exchanges.

3. Rumania with some 19 $\frac{1}{2}$  million inhabitants is a country quite well favoured by geography and climate. Despite Hungarian and German minorities it is fairly homogeneous as regards population. Therefore, the kind of regional, political, economic problems of Czechoslovakia and Yugoslavia, where ethnical groups live in less-developed parts of the country, do not arise with the same degree of seriousness in Rumania, although in times of crisis there might be difficulties with the Hungarian minority. There is good agricultural land with export potential in wheat, maize, vegetable, fruit, wine and timber. Rumania has also petroleum reserves which, though limited, are for the time being adequate for domestic needs and reduce the economic dependence on outside supplies. In this respect Rumania is better placed than other Eastern European countries.

4. In the post-war period there has been an all out drive for industrialisation, even in the face of strong COMECON opposition. The annual rate of increase of industrial production is among the highest in the world (13.2% over the period 1961-1967), capital goods being favoured at the expense of consumer goods. Rumania's main efforts have been concentrated on some key sectors such as the setting-up of large-scale steel plant, chemical industrial plants, engineering factories and the related development of electric power plants. The history of the Galati Steel Combine, designed to provide the basis for a larger engineering industry, is significant. The Soviet Union had promised in 1960 substantial assistance for its construction, but in 1963 she made it clear that she was no longer prepared to deliver some of the equipment promised. The Rumanians turned towards the West, and France and the United Kingdom supplied the heavy plate rolling mill. Above

average growth rates in production over the period 1960-66 have been reported in the chemical industry (almost 25% annually), electrical power production (20.6% annually), engineering and non-ferrous metallurgy (16.4%).

5. On the whole, Rumania's long-term development plan makes economic sense, since most of the investment is based on the raw materials available in the country (petro-chemicals, food processing, wood processing). But this does not mean that all the problems raised by a fast and sometimes hasty industrialisation have been solved already. For instance some of the most sophisticated equipment coming from the West may not always be used economically owing to lack of experience and shortage of technicians. The chemical industry, which has the highest growth rate, is also the one where the planned losses are among the largest and where a number of units are reported to be working at an unprofitable level. One of the most serious problems is that of the iron and steel industry; it can be argued that the Galati Combine is scarcely an economic proposition.

6. It must be borne in mind, that Rumania started with a low level of industry. In 1950 about 75% of the working population was still employed in agriculture with only 12% in industry. By 1966 the agricultural element had declined to 55% while employment in industry had reached 20%. The early stage of industrial development explains partly, at least, the rapidity of the progress achieved and also the fact that Rumania has not been yet under strong economic pressure to reform her system of management and planning. However, further economic expansion may be difficult to achieve, within the rigid framework of the planning mechanism and the régime is now considering some changes in the economic set-up. The mild measures approved by the National Party Congress in December 1967 are planned to be introduced gradually.

7. As elsewhere in Eastern Europe the programme of forced industrialisation has been achieved partly at the expense of agriculture. Rumania's agriculture is still primitive by European standards. Yields per hectare of basic crops and use of chemical fertilizers are among the lowest in Eastern Europe. Private 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 1960-67 amounted to about 3.5%. However, as a result of a high level of procurements from 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.

8. The standard of living of the population is still low and is improving only slowly. In spite of the rapid growth of industrial output the gross national product per head, according to US calculations, did not exceed \$940 in 1967. This compares

with \$1,580 for the USSR and over \$2,000 for the advanced countries of Western Europe. The GNP per head in Rumania is somewhat higher than in Yugoslavia but much below that of Czechoslovakia and the Soviet Zone and even less than in Bulgaria, Poland and Hungary. As has been already indicated the planning authorities have placed the emphasis on capital goods, and the consumer industries (textiles, clothing and foodstuffs) have grown only moderately. The share of investment in the national income is among the highest in Eastern Europe, and although the defence effort is fairly moderate and has not increased significantly over recent years (about 4% of GNP) the share of private consumption available from resources is relatively low. This situation seems to be accepted with resignation by the population. For the time being at any rate, it does not create serious difficulties for the authorities, who have gained widespread support for their policy of independence vis-à-vis the Soviet Union.

9. Rumania is not a great trading nation; this is a reflection of its low stage of development and the fact that its natural resources are reasonably adequate. Foreign trade per head of the population (\$153) is the lowest among East European countries, and exports in 1967 amounted only to 7.7% of the US estimate of Rumanian GNP. Nevertheless foreign trade is expanding; the combined value of imports and exports rose from \$1,364 million in 1960 to \$2,940 million in 1967. As the country develops economically, there is bound to be more specialisation and foreign trade, and the importance of this in the economic life of the country will no doubt increase.

10. As the industrialisation of Rumania progresses, a greater degree of specialisation and, in consequence, increased participation in world trade become necessary. She needs growing quantities of raw materials and equipment from abroad. At the same time, she must find enlarged outlets for her products, the increased production of which is necessary not only to pay for her purchases abroad, but also because the domestic market is too narrow for her industry to work on an economic basis and obtain the advantages of large-scale production. As will be seen in more detail in the following paragraphs, her trade with Communist countries has been proportionately reduced and is carried on mostly in the bilateral and somewhat artificial way prevalent in the Communist world. While she has greatly expanded her trade with the West, this is fundamentally unbalanced; Rumanian imports have only been covered by her exports to the West to a limited extent, the rest being financed by credits. Outstanding credits from NATO members, as will be seen in more detail in Part III, expressed per head of population or as a percentage of the national income, are the highest among European Communist

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countries. This heavy indebtedness to the West is sometimes seen in other Warsaw Pact countries as a sign of Rumania's vulnerability to capitalist influences. The future developments of Rumanian economic relations with the non-Communist world raises certain problems.

## II. RELATIONS BETWEEN RUMANIA AND COMMUNIST COUNTRIES AND MEANS OF PRESSURE AT THE DISPOSAL OF THE LATTER

11. It is a distinct feature of the Rumanian scene that the economic policy chosen by the national leaders has been pursued in the teeth of COMECON opposition. In the earlier phase of the post-war period Rumania was exploited by the USSR and the economy was run on very orthodox Communist lines. Towards the end of the fifties in accordance with the COMECON concept of division of labour it was suggested that Rumania and Bulgaria should concentrate on agriculture and processing rather than going in for all-round industrialisation. The Rumanians in declining this option made the issue one of national independence and braved the wrath of the Russians and certain other members of COMECON, notably the Soviet Zone. At first the Rumanians got their industrial plants from the Soviet Union, Czechoslovakia and the Zone, but later switched the bulk of their purchases to the West, either because the other Communist States showed some reluctance to deliver the plant or because the Rumanians realised that more up-to-date equipment was to be had in the West, and indeed was also being bought by other COMECON members.

12. The shift in the geographical pattern of Rumanian trade has been pronounced in recent years. From nearly 80% in 1959 the share of Communist countries in this trade fell to some 52% in 1967. The share of NATO countries alone rose during this period from 12.6% to 32.5%, and for the first time in 1967 it exceeded that of the USSR (see Table I). In addition to this broad survey of the change in direction of Rumanian trade it is necessary to give some indications as to the commodity pattern and as to the likely effect of economic pressures.

### (1) The commodity structure of Rumanian trade

13. The commodity structure of Rumanian foreign trade over 1950-67 is shown in Table III. As regards imports the most notable features are the increase in machinery and equipment and the decline in materials of agricultural origin. On the exports side, there has been a considerable expansion in sales of machinery and equipment and in consumer goods and a decline in fuels, ores, raw materials and in agricultural materials.



14. Although Rumania still buys considerable quantities of machinery and equipment from her Communist neighbours it cannot be said she is thereby dependent on them. The gradual switch from her COMECON partners to Western Europe as a source of capital equipment shows that Rumania has been able to exercise choice in this matter. In 1966 machinery and equipment imported, valued at about \$500 million, constituted 41% of total imports; 17.3% of exports also consisted of machinery worth \$206 million. An important element of the machinery bought consisted of complete installations at some \$180 million, of which \$33 million worth came from the USSR and a further \$11 million from Czechoslovakia and Poland. The value of power and electrical equipment imported was \$40 million, of which \$6.6 million came from the Soviet Union. Rumania also produces this type of equipment and indeed exported generators, transformers and electric motors. Rumania manufactures most of her oil industry equipment though she buys some from the USSR and other countries. In 1966 she exported over \$40 million worth of oil equipment, more than half to the USSR.

15. Rumania now produces the bulk of her metallurgical equipment: in 1966 she imported only \$6 million worth, about 12% of which came from the USSR. Other types of machinery imported in 1966 were: for the chemical industry \$8 million, timber and wood pressing \$4 million, road making \$13 million, textile industry \$13 million. Cranes and hoisting equipment accounted for \$12 million, pumps and compressors for \$6½ million. Of these categories less than 20% came from the USSR. Rumania makes most of her agricultural machinery and indeed exported \$24 million worth but she also imported agricultural equipment worth \$7 million, half of which from the USSR.

16. In solid fuels Rumania is almost self-sufficient. She produced 13.4 million tons of coal and 1.1 million tons of coke in 1966, and imported another 1.1 million tons of coke and less than 1 million tons of coal. The Soviet Union supplied about half the coal and coke imported. Czechoslovakia and Poland also delivered solid fuel. In oil Rumania is more than self-sufficient; although, in order to preserve her resources, she has recently started importing crude oil from Iran. In 1966 she refined most of the 13 million tons produced and exported considerable quantities. The USSR took over 1 million tons, paying about \$37 million. A further \$8 million worth went to Poland and Czechoslovakia.

17. In ores and metals Rumania is still somewhat dependent on the USSR. She mined 2.7 million tons of iron ore in 1966 and imported 2.8 million tons mostly from the USSR, which also sent 50,000 tons of ferro-alloys worth \$8 million. Rumania produces her own manganese ore and indeed exported some 48,500 tons in 1966. Pig iron produced in 1966 was 2.2 million tons but a further 340,000 tons worth \$15 million was bought from the USSR. The output of crude steel reached 3.7 million tons in 1966.

In addition to 2.3 million tons of rolling mill products of Rumanian manufacture, 1.2 million tons of sheet steel was imported, two-thirds from the Soviet Union. In addition to the output of 630,000 tons of pipes, 81,000 tons were imported, but 245,000 tons of pipes were exported (207,600 tons, worth \$47 million, to the USSR). There is also a considerable exchange of metallurgical products between Rumania and Poland and Czechoslovakia. The interruption or disruption of relations between Rumania and COMECON would have perhaps its greatest impact in the metallurgical industry. In the short-term there would be some disruption; in the long-term Rumania could get materials elsewhere and presumably, though not so obviously, dispose of her metallurgical products in other markets.

18. The timber and wood processing industry is a valuable asset for Rumania with an important export potential. At present COMECON members take considerable quantities of Rumanian sawn timber, wood products such as plywood, panels, barrels, boxes. In 1966 the USSR bought \$44 million of these products and a further \$9 million worth went to Czechoslovakia. Rumania earned \$47 million by exporting furniture, mainly to the USSR.

19. In building materials Rumania is self-sufficient and in 1966 exported 1.6 million tons of cement and 5 million metres of roofing felt, earning about \$10 million from the USSR and Czechoslovakia.

20. The Rumanian chemical industry imported nearly 500,000 tons of apatite from the USSR in 1966; some synthetic rubber and tyres were also imported. On balance however the industry gained on the exchange as against about \$12 million imported from the USSR, exports of chemicals, dyes, insecticides, tyres, etc., amounted to some \$18.5 million.

21. The Rumanian textile industry was able to export natural and man-made fabrics in 1966, and made up clothing yielded some \$40 million in sales to the USSR.

22. Rumanian agriculture, though not particularly favoured by the planners, more than meets domestic needs and produces a handsome export surplus. Cotton and rubber have to be imported as well as tropical products, but as regards grain (wheat, maize), vegetables, fruit, wine, sugar, production exceeds requirements. In 1966 over \$65 million was earned from the USSR and \$20 million from Czechoslovakia.

(2) Likely effects of economic pressure

23. It is clear that an interruption of trade between the socialist camp and Rumania would have serious repercussions on the economy of the latter country. A quarter of Rumania's imports come from the USSR alone while another 20% or so comes from the other COMECON members. The inconvenience to the Soviet Union would be much less, as only 5% of total imports come from

Rumania. The Soviet Union takes a large part of Rumania's most readily exportable products - oil, timber, agricultural produce, and oil drilling equipment. It is likely that outlets for some of these products would be found elsewhere, which would help to pay for materials such as iron ore, coal, coke, cotton, at present bought in the Soviet Union. There would, however, be some difficulty in disposing of certain categories of exports in the West as agricultural outlets in Western Europe are already fully utilised. As to industrial products, Rumania already has considerable difficulty in marketing them in Western and in Third World countries. There would also be problems as regards imports. In view of the limited amount of foreign currency available and the high level of foreign indebtedness, it would not be easy to replace the vital raw materials at present being imported from the Soviet Union and other COMECON countries. There might also be some difficulty in finding immediate substitutes for Soviet plant and equipment specifically designed for Rumanian factories. If, as is likely, the other Warsaw Pact countries joined in the action against Rumania, the effect on the country would of course be greater. However, the breaking off of trade with Rumania would cause economic embarrassment to these countries, which rely on imports from Rumania and use it as a market for their products. In short the Rumanian economy would be seriously affected by an interruption of trade, but, having considerable raw materials of its own, the country could survive economic discrimination for a very long period, and it is not excluded that it would eventually adjust itself successfully to the new situation.

24. The COMECON countries instead of making the dramatic gesture of completely breaking off trade relations with Rumania might resort to selective measures. These could take the form of delaying consignments to Rumania and refusing Rumanian deliveries under one pretext or another. This approach could make it difficult for Rumania to decide on future policy but presumably the degree of disturbance would be more limited and the problem of adjustment less acute than if trade were suddenly and completely broken off. The Rumanians have already had some experience of pressure by COMECON in 1962-63 when there was opposition to their industrial policy and some delay and doubt as to the delivery of plant for the Galati Steel Works. As a result of this experience and of their subsequent policy of expanding trade with the West, the Rumanians are now less vulnerable to economic pressure than they were.

25. While it seems clear that economic measures alone, taken by the Warsaw Pact countries against Rumania, would not be decisive, it is impossible to say a priori whether they would be totally ineffective. They might be part of a combination of measures including political pressure and - an even more serious matter - military threats. Even if economic measures alone were used, their effect would depend on what the Warsaw Pact countries were trying to achieve. It is doubtful whether the Ceausescu régime could be brought down by such

measures, but they might well succeed in influencing it to a certain extent. The current policy of Rumania may be an illustration of this adjustment to Soviet pressure. Up to now the Rumanians while taking care not to provoke the Russians, have reaffirmed their opposition to ideas put about as regards a common plan within COMECON. Ceausescu recently said "the views and theses calling for the transformation of COMECON into a supra-state body and the adoption of a single plan ..... are not appropriate to the requirements of the economies of the members or to co-operation between them". It would probably take considerable pressure to budge the Rumanian leaders on these issues. Commercial policy and self-interest are, indeed, at the root of Rumania's international position. Rather than give way on their commercial policy, the Rumanians might be tempted to appease their Warsaw Pact allies with concessions in other spheres and gestures of solidarity; for instance, they might agree to hand over technological or other information. It is on this issue of economic sovereignty, more than any other, that the Rumanian régime could be expected to expose itself to the greatest risk.

III. DEVELOPMENTS IN ECONOMIC RELATIONS WITH THE WEST AND  
POSSIBILITIES OF SUPPORTING THE RUMANIAN ECONOMY

26. It seems appropriate in this part to review briefly the recent developments in economic relations between the West and Rumania and to envisage what kind of support the West could render the Rumanian economy in various circumstances: first, in the present situation, i.e. independently of any specific threat; secondly, in the case of an interruption of trade between Rumania and other COMECON countries; and thirdly, should the USSR and other COMECON countries apply selective economic pressures to Rumania.

(1) Recent Developments

27. Rumania's trade with the Western world has increased considerably over the last decade. As has been indicated above, the share of non-Communist countries in total trade rose from 21.2% of \$1,024 million in 1959 to 47.6% of \$2,942 million in 1967. The change in the volume and pattern of Rumania's trade with the NATO countries can be judged from the following figures:

NATO countries' trade with Rumania (\$ million)

	<u>1960</u>	<u>1963</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>
NATO Exports	110	197	263	322	505
NATO Imports	117	200	224	275	342

In Table II which shows the main trading partners of Rumania, it can be seen that Western European countries are now more important than the COMECON countries other than the USSR. The Federal German Republic has long been Rumania's second most important trading partner after the USSR. In 1967 Germany's share increased still further(1). In the same year Italy overtook Czechoslovakia and the Soviet Zone to take third place. The share of the EEC countries (26.5%) in Rumanian trade was little short of Russia's (28.2%) and greater than that of the other COMECON countries (18.8%).

28. A notable feature of Rumania's trade with the West is the size of imports relative to exports. In 1967 for instance imports from the Federal Republic amounted to \$256.1 million while exports were \$96.5 million; imports from Belgium were \$62.3 million, exports \$10.6 million.

29. The main impulse to the increase in Rumanian trade with the West has been the ambition to acquire modern industrial plant. It has not been possible to increase exports to the same level, partly because Rumania does not dispose of the goods in the quantity and quality required, and partly because of certain obstacles in the West such as quantitative restrictions and the EEC agricultural regulations or the US discrimination against most Communist countries. In addition the Rumanians lack adequate knowledge of Western marketing techniques.

30. The Rumanians have found it possible to buy increasing quantities of Western equipment whose values exceed their own sales only because of the credit facilities available in respect of capital equipment. Government guaranteed credits to Rumania have been increasing by leaps and bounds over the last four years. At the end of June 1968 NATO government guaranteed export credits stood at about \$731 million, of which \$373.5 million had been extended for a period longer than five years. The rate of growth of these credits continues to be very high, the increase during the first six months of 1968 was 16.6% for the total outstanding credits and 20% for those of over five years' duration. Government guaranteed credits represent more than two years' Rumanian exports to the members of the Alliance on the basis of the figures for 1967 which amounted to \$342 million. Rumania has received from NATO European countries a very large amount of long-term credits, in particular from Germany and France. At the end of June 1968 these were equivalent to 51% of credits granted to all East European countries (excluding the USSR). The indebtedness of Rumania could be more precisely assessed if the total amount of credits

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(1) In 1968 this trade declined somewhat.

actually drawn, not only from NATO countries but also from non-NATO European countries, was known. Even in the absence of such information however, it can be appreciated that in most Western countries Rumanian foreign indebtedness is a matter of concern.

31. Rumania is, of course, not the only East European country which imports Western equipment on credit as the following figures show:

	<u>NATO countries'</u> <u>Credits outstanding</u> <u>at end of 1967</u>	<u>as %</u> <u>of GNP</u>	<u>per head of</u> <u>population</u>
	<u>£ million</u>		<u>£</u>
USSR	1,017.4	0.3	4.2
Rumania	626.7	3.5	32.5
Poland	488.2	1.2	13.4
Bulgaria	281.0	3.3	33.9
Hungary	117.1	0.6	11.5
Soviet Zone	114.2	0.5	8.3
Czechoslovakia	152.0	0.6	10.6

32. On the face of it, this piling up of Western credits may appear excessive, and it is not to be excluded that some time in the future Rumania might even seek a rescheduling of payments. It could be argued that from the purely commercial angle the limit has been reached but that for political reasons Rumanian wishes should be accommodated as far as possible. Even economically, however, these credits to Rumania may be justified. The very heavy investment will not continue indefinitely and the new plant should begin to pay off, assuming that the investment was wise in the first place. The Rumanians have a higher proportion of advanced Western equipment than any other Communist country which should give them an advantage as to industrial efficiency over their neighbours; this should eventually help them to achieve a pattern of production enabling them to participate profitably in world trade.

## (2) Western support in present circumstances

33. In the past the West has responded to Rumanian requests by being willing to grant credits generously, and irrespective of any particular pressure from COMECON on Rumania it would appear that NATO and other Western countries would find it in their interest to continue the policy both of selling on credit and opening their market to Rumanian products. Western firms might co-operate with local enterprises in production both in Rumania and in third countries. The Rumanians might profit from advice on marketing possibilities and methods, including publicity, from schemes to train Rumanians in management and technology. Rumanian interest in world economic organizations should be stimulated and their efforts to participate should be supported.

It would probably be good policy to encourage the other COMECON members to adopt the same open and co-operative attitude to the world economic organizations; the more they are involved in common trade institutions the less they are likely to take economic measures against Rumania. All in all the Rumanians should be encouraged in every way to apply economic criteria to their production and trade programmes. This would mean more involvement in the world market without any loss of trade with their Communist neighbours which is economically justifiable.

(3) Case of interruption of trade between Rumania and COMECON countries

34. If the Soviet Union and other COMECON countries decided to reduce drastically or to cut off trade with Rumania, the West could take measures designed (a) to meet the immediate shortage of key commodities and (b) to create new outlets for Rumanian products. As Rumania does not rely on imported foodstuffs the problem of the rundown of COMECON trade would not assume critical proportions immediately. However, the lack of certain materials to industry would seriously affect both employment and production. To some extent the Rumanians buy materials from the USSR so as to be able to deliver finished products. An interruption of trade would apply both ways. Practically all the goods which Rumania at present gets from COMECON could be obtained elsewhere without much difficulty, e.g. iron ore from India or Brazil, coal and coke from many sources, cotton from the Middle East or the Western hemisphere.

35. As the supplying countries might not wish to take the products Rumania was no longer sending to the COMECON countries there might be an immediate problem of financing these imports. In theory the Rumanians could earmark some of their output to meet the needs of the new suppliers of raw materials but it would be difficult to make such arrangements at short notice. In practice the neatest solution would be a loan to Rumania to which the richer Western nations might be prepared to contribute for political reasons. As a result of the rundown of trade with COMECON the Rumanians would have a lot of foodstuffs, furniture, timber, some oil machinery and metallurgical products on their hands.

36. It would be up to the Rumanians themselves to carry out the second phase of the operation namely to adjust their exports to the new situation. This would mean taking a cool look at world markets to ascertain which of their present products would find an outlet and which changes might be made in the production pattern so as to adjust supply to demand. Western experts might help with advice but the Rumanians themselves would have to agree to make the necessary changes in production. Their engineering industry might well be able to meet some of the requirements of the developing countries, their agriculture could sustain a larger food processing industry, their petrochemical and timber processing industries based on local resources could surely improve their export potential.

37. It has been assumed so far that in the case of an interruption of trade between Rumania and the COMECON countries, the Rumanians would remain free to co-operate with the West. However, it is more likely that a complete cessation of economic relations would be accompanied by political and even military pressures. The Rumanians might feel inhibited from taking advantage of a NATO inspired rescue operation. NATO members should be aware of the need to avoid exacerbating Rumania's relations with other Warsaw Pact countries by unwittingly providing evidence of "capitalist influences". Whether help should be given and in what form would depend largely on the Rumanians themselves.

(4) Case of selective economic pressures

38. COMECON countries might content themselves with disguised or selective economic sanctions against Rumania, especially by delaying deliveries of iron ore, coal, coke, or by refusing to take certain Rumanian goods. The purpose of such measures might not be to bring Rumania to her knees, but to reach specific or limited objectives - the diversion of contracts from West to East, the holding of manoeuvres in Rumania or the modification of her line on, e.g. the Middle East. Presumably the Rumanians would publicly complain about each aspect of pressure and it would be up to them to seek Western co-operation to counter it on an ad hoc basis. In this case also, it would hardly be politic for the Western powers to act dramatically. According to circumstances, measures selected from among those listed in paragraphs 34 to 37 above would be appropriate. They would have to be chosen in order to remedy effectively the particular difficulties which, as a result of COMECON actions, would be experienced by the Rumanian economy. But, in any case, apart from any specific step taken by the West, the continuance of some financial assistance and efforts to expand trade would bring useful relief. While selective economic pressures could cause loss to the Rumanian economy, they might, on the other hand, provide the stimulus to the Rumanians to direct still more of their trade towards the non-Communist World.



TABLE I

GEOGRAPHICAL DISTRIBUTION OF RUMANIAN TRADE (%)

	1959	1960	1965	1966	1967
Turnover \$ million	1,024.4 100	1,364.9 100	2,178.6 100	2,399.4 100	2,941.4 100
<u>Communist Countries(1)</u>	<u>79.8</u>	<u>73.0</u>	<u>64.9</u>	<u>59.6</u>	<u>52.5</u>
USSR	47.3	40.1	38.8	33.5	28.2
East European	25.1	26.5	21.5	20.6	18.9
COMECON	72.4	66.6	60.3	54.1	47.1
Other Communist	7.4	6.4	4.6	5.5	5.4
<u>Non-Communist Countries</u>	<u>20.2</u>	<u>27.0</u>	<u>35.1</u>	<u>40.4</u>	<u>47.5</u>
NATO	12.6	18.0	23.9	27.4	32.5
Others	7.6	9.0	11.2	13.0	15.0
Exports \$ million	522.4 100	717.0 100	1,101.5 100	1,186.2 100	1,395.4 100
<u>Communist Countries(1)</u>	<u>79.2</u>	<u>73.0</u>	<u>68.6</u>	<u>62.0</u>	<u>56.6</u>
USSR	47.9	39.3	39.8	34.6	31.0
East European	23.3	26.3	23.6	21.1	19.0
COMECON	71.2	65.6	63.4	55.7	50.0
Other Communist	8.0	7.4	5.2	6.3	6.6
<u>Non-Communist Countries</u>	<u>20.8</u>	<u>27.0</u>	<u>31.4</u>	<u>38.0</u>	<u>43.4</u>
NATO	13.0	16.7	20.8	24.1	26.1
Others	7.8	10.3	10.6	13.9	17.3
Imports \$ million	502.0 100	647.9 100	1,077.1 100	1,213.2 100	1,546.0 100
<u>Communist Countries(1)</u>	<u>80.5</u>	<u>73.1</u>	<u>61.2</u>	<u>57.2</u>	<u>48.8</u>
USSR	46.8	41.1	37.7	32.5	25.6
East European	26.9	26.7	19.5	20.1	18.8
COMECON	73.7	67.8	57.2	52.6	44.4
Other Communist	6.8	5.3	4.0	4.6	4.4
<u>Non-Communist Countries</u>	<u>19.5</u>	<u>26.9</u>	<u>38.8</u>	<u>42.8</u>	<u>51.2</u>
NATO	12.1	19.4	27.1	30.6	38.3
Others	7.4	7.5	11.7	12.2	12.9

(1) Both Albania and Mongolia are included in "other Communist countries".

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TABLE II  
MAIN TRADING PARTNERS OF RUMANIA

Total Trade 1966	Total Trade 1967	Exports 1967	Imports 1967
Million Lei 14,396	17,649	8,372	9,277
<u>Share in total %</u>	<u>Share in total %</u>	<u>Share in total %</u>	<u>Share in total %</u>
1. Soviet Union 33.5	1. Soviet Union 28.1	1. Soviet Union 31.0	1. Soviet Union 25.6
2. F.R. Germany 9.3	2. F.R. Germany 12.0	2. F.R. Germany 6.9	2. F.R. Germany 16.6
3. Czechoslovakia 6.8	3. Italy 6.2	3. Italy 6.7	3. Czechoslovakia 5.8
4. Soviet Zone 6.3	4. Czechoslovakia 6.0	4. Czechoslovakia 6.2	4. Soviet Zone 5.8
5. Italy 5.1	5. Soviet Zone 5.5	5. Soviet Zone 5.2	5. Italy 5.7
6. France 4.5	6. France 4.6	6. France 4.6	6. France 5.2
7. United Kingdom 3.8	7. United Kingdom 3.9	7. France 3.9	7. Belgium 4.0
8. Poland 3.5	8. Poland 3.3	8. Poland 3.5	8. Austria 3.5
9. Com. China 2.7	9. Austria 2.6	9. Hungary 2.7	9. United Kingdom 3.3
10. Hungary 2.7	10. Belgium 2.5	10. Com. China 2.7	10. Poland 3.0
11. Austria 2.2	11. Hungary 2.5	11. UAR (Egypt) 2.6	11. Hungary 2.3
12. UAR (Egypt) 1.6	12. Com. China 2.5	12. Austria 1.7	12. Com. China 2.3
13. Yugoslavia 1.6	13. UAR (Egypt) 1.8	13. Bulgaria 1.6	13. Switzerland 1.7
14. Switzerland 1.6	14. Bulgaria 1.6	14. Yugoslavia 1.5	14. Japan 1.6
15. Japan 1.6	15. Yugoslavia 1.5	15. Japan 1.3	15. Bulgaria 1.6
16. Bulgaria 1.4	16. Japan 1.5	16. Switzerland 1.2	16. Yugoslavia 1.5
17. United States 1.3	17. Switzerland 1.5	17. Spain 0.9	17. Netherlands 1.4
18. Netherlands 1.2	18. Lebanon 1.4	18. Netherlands 0.9	18. United States 1.1
19. Sweden 0.8	19. Netherlands 1.2	19. Belgium 0.8	19. Sweden 1.1
20. Belgium 0.7	20. United States 0.9	20. United States 0.6	20. UAR (Egypt) 1.0

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TABLE III

## COMMODITY COMPOSITION OF RUMANIAN TRADE

## IMPORTS

	1950	1960	1966	1967
Total Value	Lei million 1,460.3 \$ million 245.1	3,887.1 647.8	7,279.3 1,213.2	9,276.5 1,549.1
Machinery and equipment	% 37.1	% 32.5	% 41.0	% 48.8
Fuels, raw material, ores, metals	24.8	35.4	28.5	24.9
Chemical products and rubber	4.5	7.4	7.2	6.5
Building materials	1.1	1.1	1.4	1.3
Materials of agricultural origin	21.5	13.4	11.4	8.9
Materials for foodstuffs	0.5	2.2	0.8	0.7
Foodstuffs	0.3	2.6	2.4	2.0
Consumer goods	10.2	5.1	7.3	6.9

## EXPORTS

	1950	1960	1966	1967
Total Value	Lei million 1,274.2 \$ million 212.4	4,302.2 717.0	7,116.9 1,019.5	8,372.1 1,395.4
Machinery and equipment	% 4.2	% 16.6	% 17.3	% 19.0
Fuels, raw materials, metal, petroleum	33.8	37.0	24.3	20.5
Chemical products, fertilizers, rubber	1.7	2.2	5.8	6.0
Building materials	4.4	2.5	3.2	2.7
Materials of agricultural origin	29.7	15.1	14.3	12.9
Materials for foodstuffs	10.8	9.0	9.6	12.7
Foodstuffs	14.1	11.8	14.1	15.1
Consumer goods	1.3	5.8	11.4	11.1

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TABLE IV  
RUMANIAN DEPENDENCE ON FOREIGN TRADE  
(DOMESTIC PRODUCTION, IMPORTS, EXPORTS 1966)

Commodity	Domestic Production	Total Imports	From USSR & other Com. countries	Total Exports	To USSR & other Com. countries
<u>Machinery &amp; Equipment</u>		\$180m	USSR \$100m		USSR \$56m
<u>Complete enterprise plant</u>		\$40.4m	USSR \$33m CSSR \$8½m Poland \$2m		USSR \$9.2m CSSR \$7.0m
<u>Power &amp; Elec. equipment</u>			USSR \$6.6m CSSR \$1.8m		
Steam boilers	321				
Steam turbines	7				
Int. combustion engines	12,331	11,661 units		\$150,000 46,192 Generators:\$4.5m Transformers:4124	
Power station equipment					
Electric motors					
Generators & Transformers					
<u>Machine tools</u>	8,522 units	1,240 units	USSR \$3m (203 units) CSSR \$3m		CSSR \$1.5m
<u>Mining equipment</u>		\$7m	USSR \$1.2m		CSSR \$0.75m
<u>Oil Industry equipment</u>		\$5m	USSR \$1.5	\$40m	USSR \$3.5m Poland \$1m
Extraction equipment					
Boring plants	64				
Refinery equipment	7,879 tons			\$2m	

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Commodity	Domestic Production	Total Imports	From USSR & other Com. countries	Total Exports	To USSR & other Com. countries
<u>Metallurgical equipment</u> Forging/pressing Rolling mill products	48,359 tons	ø5m ø1.2m	USSR ø400,000 USSR ø432,000	ø3m	USSR ø2.4m
<u>Chemical industry equipment</u>	32,403 tons	ø8.5m			
<u>Timber &amp; Wood industry</u>	6,095 tons	ø4.3m			
<u>Agricultural machinery</u> Tractors	18,500	ø7m	ø3.4m 94 tractors = ø1m	ø23.6m	
Ploughs Seeders Harvesters	9,774 4,507 4,049				
<u>Building mats. industry</u> Cement industry	12,121 tons		USSR ø550,000	ø0.46m	
<u>Cranes &amp; hoisting equipment</u>		ø12m	USSR ø4.8m		
<u>Road making equipment</u> Excavators	570	ø13m	USSR ø6m CSSR ø2m	170	
<u>Motor vehicles</u>			USSR ø15m CSSR ø9m Poland ø5m		

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Commodity	Domestic Production	Total Imports	From USSR & other Com. countries	Total Exports	To USSR & other Com. countries
Lorries	269,730	16,107	USSR 163		
Cars		161	USSR 3,831		
Buses		249	USSR 108		
Motorcycles					
<u>Railway equipment</u>					
Diesel locos	125			2,572	Poland \$10m
Goods vans	7,609				
Passenger coaches	110				
<u>Ships &amp; equipment</u>			USSR \$2.7m	\$19m	USSR \$12m
<u>Aircraft &amp; equipment</u>			USSR \$7.7m		
<u>Ball bearings</u>	15.3 million	5.4m	USSR \$1.2m	5.4m	
<u>Pumps &amp; compressors</u>		\$6.5m	USSR \$1.9m		
<u>Textile industry</u>		\$13.5m			
<u>Printing industry</u>			USSR \$334,000		
<u>Measuring, electronic &amp; laboratory equipment</u>			USSR \$1.3m		
<u>Telecommunications equipment</u>		\$6.5m	CSSR \$1.5m		

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Commodity	Domestic Production	Total Imports	From USSR & other Com. countries	Total Exports	To USSR & other Com. countries
<u>Household goods</u>					
Radio sets	325,000	33,200	USSR \$13.2m		USSR \$5.2m
TV sets	105,000	151,700	USSR 78,100 \$7m		
Refrigerators	140,000		USSR 4,200 \$0.4m		
Washing machines	101,000		USSR 582,400 \$3.3m	\$3.0m	
Watches		\$3.0m			
Printed matter		\$0.8m			
Films					
<u>Clothing &amp; footwear</u>					
Knitted goods	86m units				
Footwear	56.5m prs.			3.8m prs.	USSR \$41m
Textile goods				\$40m	CSSR \$3m
<u>Materials</u>					
Coal	13,451,000 T	722,800 T	USSR 358,000 T \$5m		
Coke	1,103,000 T	1,102,000	TUSSR 592,000 T \$12.7m		
Electricity	20.8mrld.kWh		CSSR \$1.4m Pol.\$1.5m		CSSR \$13m
Oil products			Poland 462m.kWh \$6m		USSR 1,018,300 T = \$37m
Crude oil	12,825,000 T			276,900	Pol.\$12m CSSR \$1.5m
Petrol					USSR 648,000 T
Diesel Fuel					USSR 116,400 T
Lub. oil	3,746,000 T			1.9m T	USSR 106,500 T
Gasoil				1.9m T	
Fuel oil				274,000 T	
Mineral oils	494,000 T				

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Commodity	Domestic Production	Total Imports	From USSR & other Com. countries	Total Exports	To USSR & other Com. countries
Bitumen				69,400 T	USSR 40,700 T
Paraffin	4.54 m.cu.m			20,700 T	USSR 10,000 T
Petroleum gas	14.25 m.cu.m			36,900 T	
Petroleum coke				200,000 cu.m	
Methane					
<u>Ores and Metals</u>					
Iron ore	2,681,000 T	2,854,100 T	CSSR 89m Pol. 89.5m TUSSR 2.4m T 823m		CSSR 83m
Manganese Alloys		51,400 T	TUSSR 56,900 T 88.1m	48,500 T	
Pig iron	2,198,000 T		USSR 342,000 T 816m		
Crude steel	3,670,000 T		TUSSR 829,000 T = 897m	439,600 T	USSR 211,200 8234m
Rolled products	2,285,000 T	1,224,900 T	TUSSR 19,700 T 8408m	245,000 T	USSR 207,600 T 847m
Pipes	630,000 T	81,000 T	TUSSR 6,300 T 85.1m		
Non-ferrous ores and metals			USSR 3.2m		
Cable/wire		89.8m			
<u>Timber, wood etc.</u>					
Sawn wood	5,399,000 cu.m			22.5m.cu.m	USSR 836m; CSSR 89.2m
Plywood	210,000 cu.m			109,000 cu.m	USSR 261,200 cu.m
Veneer sheets	30.5 m.met			5.9 m.met	
Panels	174,000 T			15.3 m.met	
Barrels				810.4m	
Cellulose	296,000 T			36,800 T	
Paper	287,000 T			25,000 T	
Furniture				847m	
					USSR 841m Poland 81.4m

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Commodity	Domestic Production	Total Imports	From USSR & other Com. countries	Total Exports	To USSR & other Com. countries
<u>Building materials</u>					
Cement	5.9 m T		CSSR \$1.5m	1.6 m T	USSR \$3.4m CSSR \$6m
Concrete products	1,083,000 cu.m			5 m.met	
Roofing felt	69.9 m.met				
<u>Chemical industry</u>					
Sulphuric acid (100%)	619,000 T			94,000 T	USSR 36,100 T \$2.4m
Caustic soda	252,000 T			183,000 T	USSR 40,300 T \$1.2m
Soda ash	370,000 T			17,700 T	
Lampblack				62,500 T	USSR 28,300 T \$2.5m
Calcium carbide	419,000 T		USSR \$10m		USSR \$3.6m
Fertilisers (100% chem.)	24,100 T			1,700 T	USSR 1,400 T \$2.5m
Insecticides (100%)	7,298 T	12,900 T			
Organic dyes & paints	62,460 T				
Benzene	67,772 T				
Tolvene	50,593 T				
Sylenes	25,000 T				
Detergents (20%)	35,474 T				
Synthetic Rubber		7,400 T	USSR 1,200 T	13,506 T	USSR 8,800 T \$4.6m
Tyres	2,460,000	83,100	\$0.6m	252,000	USSR 47,000 \$1.2m
Pharmaceutical products		\$6.2m	USSR 24,800 \$1.5m	\$5,000	
<u>Textiles</u>					
Cotton yarn	80,398 T				
Wool yarn	26,264 T				
Flax yarn	20,161 T				
Fabrics	457 m.met			30.5 m.met	

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Commodity	Domestic Production	Total Imports	From USSR & other Com. countries	Total Exports	To USSR & other Com. countries
Synthetic fibres	5,469 T			1,635 T	
Chemical fibres	34,240 T				
Artificial fibres	28,771 T				
<u>Agricultural produce</u>					
Cotton					
Rubber					
Tobacco					
Grain		76,700 T	USSR 30,200 T ø22.4m		
Wheat	5,064,600 T	24,900 T	USSR ø2.3m	1.3m T	USSR 2,600 T ø1.7m
Maize	8,021,600 T				USSR 334,900 T ø20m
Vegetables: Fresh					
Preserved	742,000 T				
Oilseed crops					
Fruit Fresh				127,600 T	
Grapes				35,900 T	
Wines					
Processed fruit					
Potatoes	3,351,900 T			54,600 T	USSR { veg. fruit seed ø45m
Sugar	4,368,000 T			37,800 T	
Pulses	290,000 T			46,000 T	
Fish				97,200 T	CSSR { cereals, fruit, meat, veg., wine ø18m
Eggs	2,456m			21,000 T	
<u>Animals at end of 1966:</u>				106,000 T	
Cattle	5.3m				
Pigs	5.7m				
Sheep	14.4m				
Poultry	47.1m				
<u>Animal Products:</u>					
Meat	1,265,000 T				
Milk	37,381,000 Hl				
Wool	26,072 T				
			USSR 2,800 T ø0.5m	286m	

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ALBANIA

1. As in the previous two notes it has appeared convenient to divide the paper on the vulnerability and economic problems of Albania as follows:

- main economic problems;
- relations between Albania and Communist countries and means of pressure at the disposal of the latter;
- developments in economic relations with the West and possibilities of supporting the Albanian economy.

I. MAIN ECONOMIC PROBLEMS

2. In terms of both size and population, Albania is by far the smallest of the European Communist countries. In area, it is slightly smaller than Belgium, but it has a population of only 2 million or so inhabitants. It has a long coastline (472 km) and a mountainous hinterland. The only countries with which it has common frontiers are Yugoslavia and Greece. Economically speaking, Albania is the most backward country in Europe; per capita income in 1967 was estimated at between \$235 and \$300, this being less than half the figure reached by the least developed of the European Communist countries (Yugoslavia, Bulgaria and Rumania).

3. Since the country became independent, it has always had to rely, for its economic development, on external aid. Until 1948, a large proportion of this was supplied by Yugoslavia, then by the Soviet Union and the other COMECON countries up to 1960 and latterly, since the split between the USSR and Communist China, almost exclusively by the latter. Trade relations with the USSR were broken off completely in 1962 when China took the place of the Soviet Union but trade with the other Eastern European countries continued at a more or less constant level.

4. As a consequence of this external assistance, and despite its scant natural resources, Albania has made significant headway in the economic and social fields. The standard of living, though not to be compared with that of other European countries, has improved gradually and the authorities, by emphasising achievements in the spheres of industrialisation, education and welfare and by playing on the population's traditional distrust of anything foreign, have undeniably succeeded in maintaining stability.

5. Of all the European Communist countries, Albania releases the least amount of data throwing light on economic trends and since its rapprochement with Communist China, which has increased its isolation still further, statistical documents have become even rarer. The few sources of information available are difficult to check and generally provide no more than the growth rates without indicating the basic reference points. The figures must be interpreted with great caution, particularly those relating to agriculture.

6. Despite some measure of progress, Albania still has all the features of an underdeveloped country;

- a steeply rising demographic trend (growth rate: 3% per year);
- almost 60% of the working population engaged in farming, but agricultural output low (grain imports: about 150,000 tons a year);
- obvious inadequacy of the Infrastructure essential to industrialisation (port equipment and road network insufficient; railway network: 151 km in 1964);
- poorly developed industry (4/5ths of the industrial production being attributable to about 100 mines and factories) based primarily on the primitive working of the country's mining resources;
- little foreign trade and a chronic trade gap;
- exports lacking in diversity and consisting mainly of unprocessed raw materials (copper, ferro-nickel, chromium, crude oil, bitumen, tobacco, wool, hides).

7. The increase in the population, far steeper in Albania than in any other European Communist country, has been deliberately fostered, apparently for reasons of national prestige, by the Government's policy of encouraging a higher birthrate, on the one hand, and of banning emigration on the other hand. The demographic pressure thus engendered must inevitably create serious problems for the country's leaders in the not too distant future.

8. The collectivisation of agriculture was recently completed, leaving only a very small proportion of the arable land at the disposal of individual members of the collective farms. These private plots contribute in no small measure, however, to the overall volume of production. The creation of State farms, working 15% of the arable land, has made it possible to consolidate to some extent the farming units which

had been divided up after the expropriation of the big landowners. Over a thousand collective farms work 82% of the land under cultivation and 250 regional undertakings the remaining 3%. Progress in agriculture has been slow and increased yields have been obtained mainly by extending the areas under cultivation, (290,000 ha in 1938, 550,000 ha in 1967). Efforts in this field have been directed mainly towards soil treatment, the drainage of the coastal plains and the cultivation of lands cleared in the foothills. At the same time, a start has been made on mechanisation and a greater diversification of crops is also in evidence. However, maize wheat, rye, potatoes, cotton and tobacco are still the staple crops.

9. During the five-year period 1961-1965, agricultural output, according to official Albanian data, rose by a yearly average of 6.4% and this rate is said to have doubled in the ensuing two years. However, Albanian statistics are unreliable. Despite all these efforts, domestic grain harvests can apparently meet only three-quarters of requirements and imports to bridge the gap have risen on an average to almost 150,000 tons in recent years. Likewise, stock-breeding has remained stationary with the possible exception of pig-farming which has contributed to an improvement in the quality of the food supply and has even provided an exportable surplus. The fishing industry has been seriously hampered by the leadership's fears that this activity might be used as a vehicle for espionage and illegal emigration. The future development of agricultural output will need to be geared more closely to higher yields through the extension of mechanisation and the use of chemical fertilisers and insecticides.

10. The primitive condition of the country's economic infrastructure is one of the main barriers to industrialisation. Albania has only two ports (Durrës and Vlora), both of them still inadequately equipped, a road network in serious need of improvement, about a hundred kilometres of pipeline linking the main oil producing centre to the coast and 150 km of railways built after the second world war. The mountainous nature of the country and the shortage of lorries constitute a hindrance to certain projects located in areas which are frequently difficult to reach. Despite the remarkable progress made in the battle against illiteracy and in the fields of vocational training and adult education, Albania is still handicapped by an acute lack of technical skills and training.

11. Although there has been some improvement in industry, which was practically non-existent twenty years ago, it is still extremely rudimentary. Mining continues to make the main contribution both to domestic requirements and to exports. It produces mainly oil, bitumen, ferro-nickel, chromium, coal

and copper. Facilities for the full production cycle, from extraction to the finished manufactures, exist only in the case of this last-mentioned metal. The output of electrical power is still very low and its use is largely reserved for the country's industrial needs. The chemical industry consists of the production of nitrates by an Italian-built factory, and the production of phosphates by an inefficient factory built with Chinese aid. A new factory in Tirana, also supplied by the Chinese, is producing spare parts for tractors and agricultural machinery. There is some expansion in certain branches of light industry, such as textiles, and a new plant which should be completed in 1969 with Chinese aid, could make it possible to produce goods capable of competing in international markets.

12. There are practically no statistics of national revenue; only yearly growth rates are officially released. During the period 1961-1965, the net material product had risen by an average of 5.7% per year as compared with the anticipated 9.3%. Economic progress was greater during the first two years of the current five-year period with a growth rate of 9% in 1966 and 7.5% in 1967, as compared with the target figure of between 7.4% and 8.2% per year. Western estimates of Albania's gross national product vary between about 460 and 600 million dollars for 1967.

13. From extremely small beginnings, Albania's foreign trade has grown rapidly, its total value having risen from \$28.4 million in 1950 to \$129.6 million in 1960 and \$174 million in 1967. Albania's trade structure is typical of under-developed countries: the development of its industry and agriculture is dependent on imports of the whole range of machinery, tools and finished goods required for this purpose. Furthermore, Albania must import large supplies of foodstuffs representing some 15 or 16 million dollars a year to meet domestic needs.

14. Total exports in 1967 accounted for nearly 15% of the country's gross national product. Despite a considerable effort in recent years to diversify exports, these still consist mainly of raw materials. The contribution made by the mining industry is still all-important, in this respect, although it fell from 70% to 55% between 1955 and 1964. Currently, about a hundred different items are exported.

15. Exports are a long way from compensating for the growing volume of imports. Consequently, one of the most striking features of Albania's foreign trade is the chronic trade gap. Less than one-third of the imports were covered by exports in the years 1950-1955, but as from 1960 this figure rose to between 60% and 70%. The fourth five-year plan for the period 1966-1970 aims to improve the balance of trade by reducing imports of grain, rice and fats and by broadening the industrial basis of the economy so as to step up the exports of finished and semi-finished goods.

16. Progress in industrialisation is almost entirely dependent on foreign aid which has been supplied since 1960 primarily by Communist China. In February 1961, the latter granted Albania a loan of \$125 million and a year later, a further credit amounting to \$100 million. At the end of 1966, Albania had drawn some \$140 million of the total credits thus obtained.

II. ECONOMIC RELATIONS BETWEEN ALBANIA AND COMMUNIST COUNTRIES AND MEANS OF PRESSURE AT THE DISPOSAL OF THE LATTER

17. Before the second world war, Albania only traded on a very small scale, mainly with Italy, Greece, the United States and Yugoslavia. Albania's imports came primarily from Italy, Germany, Yugoslavia, Japan and the United Kingdom. Since the advent of the Communist régime, there has been a fundamental change in the pattern of trade and transactions with non-Communist countries have dwindled considerably. In 1959, the geographical breakdown of Albania's foreign trade was as follows: 53% of all transactions were with the Soviet Union, 40% with the other Eastern European countries, 3% with Communist China and 4% with the Free World as a whole and Yugoslavia. Between 1944 and 1959, the USSR had advanced a total of \$170.9 million to Albania, mainly to finance the industrialisation of the country but also to cover Albania's chronic trade gap.

18. After the political split between Moscow and Peking, the USSR broke off all economic relations with Albania and the latter turned towards Communist China which, as from 1962, has supplied 65% of its imports and taken almost 30% of its exports. Since then, the Albanian trade deficit with Communist China has grown to considerable proportions which have been offset by substantial Chinese credits. On the other hand, the balance of trade generally continued to be in Albania's favour in its transactions with the other COMECON countries. The share of the latter in Albania's total foreign trade was 40% or 27% of its imports and 61% of its exports.

19. Communist China is still by far the largest of Albania's suppliers; in 1967, it provided 52.4% of the latter's total imports but only took 37.1% of its exports. The main outlets for Albania are in the COMECON countries other than the USSR: in 1967, they took 51.5% of its total exports and only supplied 35.2% of its imports. The relative importance of the trade relations between China and Albania during that year declined slightly by comparison with the preceding years, not so much because of smaller Chinese deliveries as because of some expansion of trade between Albania and the countries of the Free World as well as certain COMECON countries, such as Czechoslovakia and Rumania, which have adopted a more independent attitude towards the USSR. Under the terms of

the trade agreement signed in December 1968, Sino-Albanian trade should continue at the same level in 1969. Albania will continue its exports of crude oil and bitumen, non-ferrous metals (chromium, ferro-nickel and copper) as well as certain agricultural products, and will import from China tractors, piping, certain metals, agricultural machinery, equipment for the oil industry, tools of different kinds, lorries, tyres and chemical products. Finally, China is still by far the largest source of technical aid: the number of Chinese "experts" and "technicians" currently working in Albania is generally estimated at two or three thousand.

20. In 1967, trade with the Eastern European Communist countries other than the USSR rose again to the levels reached in 1959 and 1962 in terms of percentages of the overall volume of Albanian trade. In absolute terms, however, it rose from \$50 million in 1959, to \$55 million in 1966 and to \$73 million in 1967, with exports covering imports. This development is due mainly to Albania's growing demand for foreign capital equipment and to an increase in the quantities of Albanian goods available for export to the other COMECON countries.

21. Of the Eastern European countries, Czechoslovakia has traditionally played the most important part in Albanian trade. It already ranked second at the time when the USSR was Albania's chief trading partner. It kept this position when Communist China took the Soviet Union's place as Albania's chief partner. In 1967, Czechoslovakia accounted for 12% of Albania's total trade, or 10.4% of its imports and 13.6% of its exports. The Soviet Occupied Zone of Germany has now made considerable headway and takes the third place among Albania's suppliers and the fifth among its customers. Poland and Bulgaria have likewise developed their trade with Albania, followed by Rumania and to a lesser extent by Yugoslavia and Hungary. These trends are a clear illustration of the growing importance of the rôle played by the European Communist countries, other than the Soviet Union, in Albania's foreign trade and, more generally, in the expansion of its economy. The share of the Eastern European countries has developed as follows in recent years:

	USSR	Czecho- slovakia	Poland	Zone	Bulgaria	Hungary	Rumania	Yugo- slavia
1966	0	12.9	6.4	5.9	2.4	3.7	3.2	2.3
1967	0	12.0	8.0	7.9	6.6	3.8	4.0	2.7

22. Economic relations between Albania and the USSR have been non-existent since 1962. It that year, the USSR withdrew the economic experts it had sent to Albania. Repayments of the credits totalling nearly \$170 million which were granted prior to 1960 do not appear in Albania's foreign



trade statistics. It would appear, therefore, that Albania still owes the USSR part of this sum. If this is in fact so, the latter might possibly find a means of exerting pressure by demanding repayment. It is more likely, however, given the present structure of Albanian trade, that if the USSR took sanctions, it would no doubt do so through third parties, namely, the other COMECON countries. It should be remembered in this context that Albania has no common frontier with any of the COMECON countries, since Yugoslavia forms a barrier between Bulgaria and Rumania, on the one hand, and Albania, on the other hand.

23. None the less, the fact that almost 91% of Albania's trade is with the European Communist countries and Communist China emphasises its vulnerability to economic pressures from the Communist countries in so far as such pressures could be concerted and the Sino-Soviet conflict overcome. It seems more plausible, however, that the USSR might simply seek to obtain a COMECON decision leading to a change in the attitude towards Albania of Czechoslovakia, Poland, the Soviet Occupied Zone and Bulgaria. All these countries offer Albania valuable outlets for the products of its growing industry which it would be extremely difficult to place on other markets. It is hardly conceivable that, in this eventuality, trade with Communist China, which is already very substantial, could rise to a much higher level. The replacement of the machines and tools now mainly supplied by Czechoslovakia and the Soviet Occupied Zone would inevitably raise serious problems for Communist China should it decide to step up its aid. In any case, the Chinese Communists would need to reappraise the cost of their programme of assistance to Albania in terms of such political advantages as they thought they could derive from such a situation, and what their conclusions would be is a matter of uncertainty, to say the least.

### III. DEVELOPMENTS IN ECONOMIC RELATIONS WITH THE WEST AND POSSIBILITIES OF SUPPORTING THE ALBANIAN ECONOMY

24. Although the share of the Western world in Albania's foreign trade rose from 3% in 1959 to 6.5% in 1967, the total volume of trade with the West remains extremely small (imports \$10 million and exports \$4 million) and well below the figure for Czechoslovakia alone, and even below the figure for Poland or the Zone taken individually. Italy is the NATO member country which trades most with Albania; it ranks fifth on the list of principal trading partners and accounts for 4% of all transactions. France and the Federal Republic of Germany taken together only account of 1.2% and the other NATO countries, both European and American, for even less. Of the other countries, only Yugoslavia (2.7% of the total trade) and to

a lesser extent Austria are worth mentioning. It should be noted that plans for industrialisation are based on financial and technical assistance currently representing a financial contribution of some \$70 million per year(1). So far, the Albanian leadership has refrained from seeking economic aid of any kind in the West and has made no request for export credits.

25. While it may be in the interest of the West to help Albania to emerge from its economic isolation, it is obvious that the first move in this direction must come from Albania. However, there is no certainty that this step would be taken by Albania if it was subjected to economic pressure. Experience has shown that the breaking off of all trade relations with the Soviet Union in 1960 had little effect on the expansion of Albanian trade with the West; this was due more to the inevitably limited nature of Chinese aid than to a deliberate decision by Albania to approach the countries of Free Europe. In any assessment of Western possibilities in this sphere, three hypothetical situations should be considered:

- (i) In the event of pressure being exercised by the COMECON countries - which seems the most likely development at the moment - it is doubtful whether Albania would consider resorting to Western aid. It might, however, completely reverse its attitude towards the Free World if China refused more or less openly or was materially unable to make an appreciable increase in its aid to Albania. It is likely, however, that China would be in a position to help by stepping up her trade and aid, especially since the increments necessary, in absolute terms, would be relatively small.
- (ii) Another possibility, which seems unlikely, is that of a sudden reduction of Albanian trade both with the European Communist countries and with China; in that case, Albania would probably turn towards the West in order to obtain the support needed for the implementation of its economic development programme.
- (iii) It seems more realistic to consider the possibility that Communist China may be forced by internal political difficulties to cut down or suspend its economic aid to Albania, thereby abandoning its present means of exercising pressure on that country. This would create a vacuum, which might tempt the appetite of the Soviet Union, but which would also provide an opening for the West.

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(1) Average amount of drawings on the credits of Chinese economic aid in recent years.

26. The possibility of increasing the volume of trade between Albania and the West seems at first sight somewhat remote on account of the small range and indifferent quality of Albanian products. However, in view of its small size and sparse population, Albania's import needs could easily be covered by the Western countries for which the dimensions of the problems are different. Among Albania's main exports, certain raw materials, for example, crude oil, bitumen, iron ore, chromium, copper, plywood, woven cotton, tobacco and wine could be taken by the Western countries should they decide to respond to Albanian overtures. Similarly, the Western countries could supply chemical and synthetic products as well as the industrial plant and means of transport needed by Albania, as stated above. Western assistance in the exploitation of mineral resources, as well as new industrial ventures, would make it possible for Albania to increase imports of capital goods and might further the development of the country. A substantial proportion of the grain supplied by China is of Canadian origin. As for the semi-finished or finished goods which Albania wishes to export, markets could be found more readily in a number of developing countries than in the West, and the former might even provide Albania with alternative sources of supply for certain raw materials currently imported from Communist Europe. However, the likelihood of such developments is limited by the shortage of financial resources available to the under-developed countries. From a strictly economic point of view, it would also seem that trade relations between Albania, on the one hand, and Yugoslavia and Greece, on the other hand, might be expanded if political considerations could be overlooked and if the basically hostile attitude of Albania were to alter.

27. It is conceivable, however, given the present political régime, that Albania, if placed in such a difficult situation, might prefer to suspend its economic development programme rather than seek Western aid and might choose even greater isolation and, ipso facto, the continuation of its subsistence level economy.

TABLE I

Geographical Pattern of Albanian Foreign Trade (%)

	1959	1960	1961	1962	1963	1966	1967
<u>TOTAL TURNOVER</u> (\$ million)	100 n.a.	100 (129.6)	100 n.a.	100 n.a.	100 n.a.	100 (163.5)	100 (174.9)
<u>Communist countries</u>	<u>96.1</u>	<u>95.9</u>	<u>94.4</u>	<u>92.2</u>	<u>91.6</u>	<u>89.4</u>	<u>90.8</u>
USSR	53.0	53.9	36.0	0.2	0.0	0.0	0.0
Eastern Europe	40.4	34.8	39.4	40.0	35.5	33.9	42.3
<u>COMECON</u>	<u>93.4</u>	<u>88.7</u>	<u>75.4</u>	<u>40.2</u>	<u>35.5</u>	<u>33.9</u>	<u>42.3</u>
Communist China	2.7	7.0	18.4	51.0	54.7	53.5	45.9
North Korea and North Vietnam	0.0	0.2	0.5	1.0	1.4	2.0	2.6
Free World(1)	3.9	4.1	5.6	7.8	8.4	10.6	9.2
<u>EXPORTS</u> (\$ million)	100 n.a.	100 (48.6)	100 n.a.	100 n.a.	100 n.a.	100 (64.4)	100 (74.1)
<u>Communist countries</u>	<u>96.9</u>	<u>98.0</u>	<u>96.8</u>	<u>90.4</u>	<u>91.4</u>	<u>91.8</u>	<u>91.7</u>
USSR	44.9	49.8	43.4	0.0	0.0	0.0	0.0
Eastern Europe	49.5	43.4	47.0	60.9	41.3	48.9	51.5
<u>COMECON</u>	<u>94.4</u>	<u>93.2</u>	<u>90.4</u>	<u>60.9</u>	<u>41.3</u>	<u>48.9</u>	<u>51.5</u>
Communist China	2.5	4.3	5.7	28.6	48.6	40.0	37.1
North Korea and North Vietnam	0.0	0.5	0.7	0.9	1.5	2.9	3.1
Free World(1)	3.1	2.0	3.2	9.6	8.6	8.2	8.3
<u>IMPORTS</u> (\$ million)	100 n.a.	100 (81.0)	100 n.a.	100 n.a.	100 n.a.	100 (99.2)	100 (100.8)
<u>Communist countries</u>	<u>95.8</u>	<u>94.6</u>	<u>92.8</u>	<u>93.5</u>	<u>92.1</u>	<u>87.3</u>	<u>89.8</u>
USSR	56.3	56.3	31.1	0.4	0.0	0.0	0.0
Eastern Europe	36.7	29.7	34.3	26.9	31.9	23.7	35.2
<u>COMECON</u>	<u>93.0</u>	<u>86.0</u>	<u>65.4</u>	<u>27.3</u>	<u>31.9</u>	<u>23.7</u>	<u>35.2</u>
Communist China	2.8	8.6	27.0	65.2	58.9	62.1	52.4
North Korea and North Vietnam	0.0	0.0	0.4	1.0	1.3	1.5	2.2
Free World(1)	4.2	5.4	7.2	6.5	7.9	12.7	10.2

(1) Including Yugoslavia

TABLE II  
MAIN TRADING PARTNERS OF ALBANIA  
(1967)

% of total trade turnover (export + import)		% of total imports		% of total exports	
Communist China	45.9%	Communist China	52.4%	Communist China	37.1%
Czechoslovakia	12.9%	Czechoslovakia	10.4%	Czechoslovakia	13.6%
Poland	8.0	Soviet Zone	7.3%	Poland	9.4%
Soviet Zone	7.9%	Poland	6.6%	Bulgaria	9.0%
Bulgaria	6.6%	Bulgaria	5.0%	Soviet Zone	8.8%
Italy	4.1%	Italy	4.0%	Hungary	6.1%
Rumania	4.0%	Rumania	3.5%	Rumania	4.5%
Hungary	3.8%	Yugoslavia	2.5%	Italy	4.1%
Yugoslavia	2.7%	Hungary	2.4%	Yugoslavia	3.0%
France	0.6%	Fed. Rep. Germany	0.9%		
Fed. Rep. Germany	0.6%	France	0.7%		

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