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COMMITTEE OF ECONOMIC ADVISERS

ETHIOPIA AND THE SINO-SOVIET OFFENSIVE

Note by the Chairman

The attached paper, prepared by the Economic Section, is circulated to the Committee of Economic Advisers, for information.

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ETHIOPIA AND THE SINO-SOVIET OFFENSIVEBASIC DATA (ETHIOPIA INCLUDING ERITREA)

<u>Area:</u>	1,184,000 sq.km. (twice the size of France) of which: 1/5 arable land.			
<u>Population:</u>	about 20 millions (1956)			
<u>National Income:</u>	36 US \$ per capita (1957)			
<u>Currency Unit</u>	1 US \$ = E \$2.484 1 E \$ = 0.40 US cents			
<u>Budget (in millions US \$)</u>	<u>1955/56</u>	<u>1956/57(est)</u>	<u>1958</u>	
Revenue	46.0	48.3	n.a.	
Expenditure	52.2	53.6	n.a.	
Deficit	-6.2	-5.3	-8.4	
<u>Govt. Debt (in millions US \$)</u>	<u>Dec. 1955</u>	<u>Dec. 1959</u>		
Internal	25.3	n.a.		
External	12.3	136.9		
Total	37.6	136.9		
<u>Money Supply (in millions US \$)</u>	<u>1954</u>	<u>1955</u>	<u>1958</u>	<u>Nov. 1959</u>
Currency	47.4	51.4	55.7	56.0
Demand deposits	9.2	11.8	18.9	18.7
Total	56.6	63.2	74.6	74.7
<u>Cost of Living indices</u> (1953 = 100)	<u>1955</u>	<u>1957</u>	<u>1958</u>	
	112	117	133	
<u>Foreign Trade (in millions US \$)</u>	<u>1955</u>	<u>1958</u>	<u>1959 (first half)</u>	
Exports fob	64.9	62.6	39.8	
Imports cif	67.2	77.4	42.4	
Balance	-2.3	-14.8	-2.6	
<u>Official Gold and Foreign exchange reserves (in millions US \$)</u>	<u>1955</u>	<u>1957</u>	<u>1958</u>	<u>Nov. 1959</u>
Gold	4.2	4.2	4.2	3.7
Foreign Exchange	51.0	60.0	52.0	47.6
Total	55.2	64.2	56.2	51.3

I. INTRODUCTION

On the occasion of Haile Selassie's visit to Moscow in June 1959, the USSR granted a long-term low-interest loan to Ethiopia amounting to 400 million rubles (= 100 million US \$) for development projects in the field of agriculture, transportation, industry and trade. This amount seems to be quite substantial as compared with the total Western and International economic aid (including Yugoslavia) granted to Ethiopia of about 136.9 million US \$ (as detailed in the Annex). Until June 1958 Ethiopia had drawn 17.3 million US \$ of a total sum of 27 million US \$ granted by the USA in the period of 1952-1958. For the time being, the Soviet loan has not yet been implemented since projects which are to be financed are still to be identified.

2. Actually, as can be seen from the table in the Annex, the share of Sino-Soviet Bloc countries in Ethiopia's foreign trade is not important. However, there have been some penetration moves in the past: the Czech-Ethiopian trade agreement concluded in March 1957, Czech offers to build a cement plant and to deliver hospital equipment. After the visit of a Czech trade mission in December 1959, a new trade agreement was concluded providing for a credit of 9.8 million US \$. A Czech scientific mission is undertaking geological surveys in Ethiopia.

3. Ethiopia has often been trying to negotiate trade agreements with Bloc countries for the sale of its surplus coffee. The USSR has purchased hides and skins and coffee about world price level and delivered 2000 tons of wheat in 1959. In November 1959 an agreement between Ethiopia and the USSR was concluded providing for the use of Soviet credits and an expansion of trade between the two countries. Soviet exports will include machinery, tractors, motor cars, electrical and pharmaceutical goods; Ethiopia will export coffee, hides and skins, oilseeds and fish products in exchange for part of its imports from the USSR and will also make use of the Soviet credit of 400 million rubles. A Soviet mission is planned to work out details of development projects and will study methods of implementing the Soviet credit.

4. The Soviet Bloc has been showing an increasing willingness for absorbing surpluses on the world coffee market and providing capital goods in return. The international coffee agreement of October 1959 between 33 coffee producing and coffee consuming countries has tried to solve the problem of world coffee overproduction by fixing export quotas. The world stocks are estimated at 35 million bags (1 bag = 66 kg.), that is a whole year's production. Brazil as the world's biggest coffee producer has already bartered coffee for Polish ships and for Czech equipment. The recent USSR-Brazilian agreement indicates that there might be similar agreements with other coffee producing countries which could also affect Ethiopia's share in the world coffee market.

## II. THE STRUCTURE OF THE ETHIOPIAN ECONOMY

5. Ethiopia's economy is predominantly agricultural and pastoral in character. Rich soil and sufficient rainfall offer favourable conditions for the production of various field crops (two crops annually). Large areas of natural pasture land provide extensive grazing opportunities. Agricultural and live-stock products constitute about 80% of the country's total output. The main agricultural commodities are cereals, oilseeds, cotton, sugar cane, tea and coffee, the last being the most important cash and export crop. A United Nations study of 1951 concluded that Ethiopia has the most unused arable land in all the Middle East and Africa. The improvement and extension of the transportation system are necessary for a better utilisation of the physical resources of the country. With deepwater ports on the Red Sea, the country has direct access of strategic importance to short routes to the Western Hemisphere, India, Asia and Europe.

6. The population is small in relation to the land available for cultivation. There are no large farms but small family subsistence holdings with an average size of 3 ha of cultivated land. The country is self-sufficient in food and it is believed that it can easily satisfy the requirements of a growing population at a level well above the present low living standard.

7. As to minerals, gold<sup>(1)</sup>, salt and materials for cement are the only minerals exploited commercially. Other resources such as mineral deposits of iron, marble, mica, platinum, coal, copper, sulphur and water power are being explored slowly. Drilling for oil has been going on for years but no oil has been struck so far. Prospecting concessions have been granted to foreign firms (Sinclair Co., Shell).

8. Industrial activity is still on a limited scale, but industrial production has been growing steadily in recent years. The most important enterprises are: cotton textile mills, sugar and meat processing plants, cement plants, oil and flour mills, soap and shoe factories which show the following employment figures:

<u>Branch of Industry</u>	<u>Number of Employees (est.)</u>
a. Sugar, tomato and vegetable conserves	5000
b. Textiles	4000
c. Salt mines	550
d. Breweries	2000
e. Flour mills	200
f. Soap and vegetable oil	150

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(1) Recent gold discoveries in Ethiopia which already have increased the production from 200,000 US \$ annually to 2,000,000 US \$ have not yet been taken into account in the National Income forecast.

9. The National Income is to increase as follows:

<u>Sector</u>	<u>1957</u> (in US \$)	<u>1961 (planned)</u> (in US \$)	<u>% increase(1957-61)</u> (planned)
Agriculture and Forestry	537.6	598.0	11
Mining (1)	1.2	1.6	33
Manuf. industries	12.4	22.8	84
Electricity	1.2	2.4	100
Handicrafts	25.2	28.4	15
Construction	6.8	10.8	59
Transportation	28.8	40.4	40
Trade	45.2	58.0	28
Other services	62.8	71.2	13
<b>Total</b>	<b>721.2</b>	<b>833.6</b>	<b>16</b>

### III. THE COFFEE POSITION

10. Despite long-term projects for a more diversified production pattern of Ethiopia's economy, the production of coffee remains the principal economic asset. On the basis of the two-year coffee production cycle, the extension of the coffee cultivation has been continuing while the improvement of the transportation system has been reducing freight rates. As compared with world production, Ethiopia's coffee production was as follows:

#### Development of Coffee Production (in 1000 tons)

	<u>1951</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>
World:	2.330	2.480	2.490	2.860	3.500	3.251	3.518
Ethiopia:	25	40	46	54	52	57	58

11. Ethiopia is a comparative newcomer on the world market and is possessing a considerable advantage over Latin America and over most of her African competitors because of its low production costs. During 1950-1955 she has increased her output at an average annual rate of about 25% as compared with 10% for the African continent as a whole. In the same period, Ethiopia's share in total world production rose from 1% to 2% and her share in the African output increased from 6.5 to 10%. Since the foreign exchange earnings from coffee sales amount to nearly 2/3 of total export earnings the world coffee price fluctuations have a strong impact on the balance of trade development and on the budgetary position of the country. Since the fall in world coffee prices a loss of nearly 14 million US \$ annually is estimated. The ups and downs of coffee price development are indicated in the following table.

(1) Recent gold discoveries in Ethiopia which already have increased the production from 200,000 US \$ annually to 2,000,000 US \$ have not yet been taken into account in the National Income forecast.

Coffee Price Fluctuations (Santos 4 fob New York)  
(Annual average in US \$ per 100 lb)

	<u>1949</u>	<u>1950</u>	<u>1951</u>	<u>1952</u>	<u>1953</u>	<u>1954</u>	<u>1958</u>	<u>1959</u>
United States Wholesale price	27.47	50.91	54.30	54.12	58.46	78.30	41.50	35.50

12. The economic development of Ethiopia will depend primarily on the prospects of its coffee exports. In the past they have shown the following picture:

<u>Coffee Exports</u>	<u>Average</u> <u>1948-1949</u>	<u>1950</u>	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1957</u>	<u>1958</u>
in value (mill. US \$)	7.4	13.0	46.1	39.8	36.1	49.2	33.7
in volume (in 1,000 tons)	18.8	18.7	43.9	31.6	42.0	50.7	39.9
as % of total exports	31	46	59	62	56	75	55

13. It is understood that there is sufficient incentive for increasing coffee production even if prices will fall further substantially. While in the period from 1952 to 1956 the price for Santos 4, determining the prices of Ethiopian coffee grades, was on the average 50 cents per pound (as compared with 1948 26 cents) in 1959 the price had declined to 35 cents per pound. With production costs running at a low level, the World Bank Mission of April 1957 believed that even at a much lower price level, profits would still remain high enough to stimulate a further expansion of production on the plantations as well as in the forests. The comparatively low level of production costs in Ethiopia is due to the fact that most of the coffee comes from natural forests and most of the cultivators are small farmers. Some information on the distribution of holdings is available for the Jimma district which produces about 2/5 of the coffee crop. In this district 80% of the holdings, whether forest land or plantations, are under two hectares.

The Ethiopian government is developing a programme for the improvement of the quality of coffee by better methods of cleaning and grading. The new roads under construction will open up areas with large potentialities and it is estimated that coffee production will increase by 50% over the next five years.

IV. FOREIGN TRADE

14. The movement in Ethiopia's exports and imports has been as follows:

	<u>1953</u>	<u>1954</u>	<u>1955</u>	<u>1956</u>	<u>1957</u>	<u>1958</u>	<u>1959</u> (1st half year)
Exports	67.8	64.3	64.9	60.6	76.7	60.8	21.4
Imports	55.2	64.0	67.2	62.8	71.4	77.4	21.2

Tables concerning the detailed composition and direction of Ethiopian trade are to be found in the Annex.

The Government's development and private investment projects cause capital goods to form an important component of Ethiopia's import structure.

15. The foreign exchange reserves have been deteriorating because of bad coffee crops, falling coffee prices and increasing imports of consumer goods since 1958. In view of the general worsening of the foreign exchange situation the Ethiopian State Bank finally had to introduce restrictive measures in September 1959.

16. The Bank Mission of April 1957 believed, however, that restrictions resulting from a payments deficit of moderate magnitude over several years should not give rise to major problems. The decline in principal exports has been bringing about a decrease in customs revenues, the main source of the government's revenue used for developmental investments. In the period of exceptionally high coffee prices additional revenue had resulted partly from the application of a sliding scale tax on coffee exports, thus increasing the government's cash balances. The coffee export tax consists of a fixed tax rate of 80 US \$ per ton and a sliding scale tax which becomes operative when the price of Santos 4 reaches 55 cents per pound in the New York market. In the present period of declining prices of coffee this sliding scale tax has no effect.

V. THE 1957-1961 DEVELOPMENT PLAN

17. A five-year development plan drawn up by Yugoslav economists was announced in 1957 and is to speed up the economic development of the country up to 1961. The plan calls for total investments of US \$ 255 million of which 35.6% would go into the field of transport and communications, 27% into agriculture, 8.5% into industry and 6.4% into electric power. The plan is rather an indication of the order of magnitude of proposed investment than a definite programme. The proposed sources of financing for the plan are as follows:

<u>Domestic Sources</u>	<u>Investment (1957-61)(in mill.US \$)</u>
Budget appropriation	58
Bank loans	17
Private investments	24
Public enterprises	4
Farm investments in kind	56
Budget deficit	15
	<u>174</u>

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<u>Foreign Sources</u>	<u>Investment (1957-61) (in mill.US \$)</u>
Foreign loans )	57
Foreign aid )	
Private investments	20
Reparations	<u>4</u>
	<u>81</u>
Grand Total	<u>255</u>

18. This plan is based on the assumption of an annual rise in national income of 3.8% during 1957-1961, as against an estimated average 2 - 2.5% per year during 1950-1957. The growth of population is projected at 1.5% per annum. It is also hoped to raise the percentage share of investment from 5.4% to 7.6% and to reduce that of consumption from 90.9% to 88.4%. The estimated 16% rise in income per head in the period 1957-61 would permit an appreciable rise in consumption levels as well as in investments. Coffee exports are projected to rise by 30%, despite a weakening of the world market. Imports of capital and semi-finished goods will have to be increased considerably. It is, however, estimated that all the imports required for an accelerated development cannot be fully paid for in the short-run from current export proceeds. The plan therefore, recommends to continue the policy of attracting foreign investment, both public and private, on a larger scale. Up to now there are no indications whether the plan will work out.

19. The government has under consideration a number of development projects, including the expansion of the highway system and telecommunications, the modernisation of the Assab port, construction of transportation and storage facilities, hydro-electric power projects (Koka Dam), improvement of airfields, improvements in the quality of coffee production and development of food-processing industries. Economic development expenditures ran up to 20% of total government expenditures by using surpluses in the ordinary budget and were supplemented by loans from the State Bank, the IBRD and other international lenders (a detailed table in the Annex). The budget position will be less strong as revenues from coffee exports are reduced. In order to avoid the emergence of major budget deficits the Government is already curtailing expenditures, particularly through the suspension of an expansive building programme. There is no significant internal debt. The Ethiopian government has withdrawn a part of the accumulated earnings in early 1959 and has used it for reducing its debt towards the State Bank. In 1955 a Council of National Economy was created to co-ordinate plans of technical assistance agencies and development organizations such as the Imperial Highway Authority, Imperial Board of Telecommunications, and the Development Bank of Ethiopia.

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VI. CURRENT ECONOMIC DIFFICULTIES

20. As the result of the depressing prices in the world coffee market, the foreign exchange situation has been worsening so that the State Bank had to introduce restrictive measures against the import of consumer and capital goods in September 1959. At the same time, commercial credits in the domestic sector were tightened up in view of the inflationary price developments. The decline in foreign trade led to a decrease in customs revenues, thus slowing down the government's contribution to development investments. The government deficit was also one of the important reasons for the outflow of foreign exchange over the last few years. The future development of the Ethiopian economy is highly determined by the world coffee situation. Studies undertaken by the FAO and by the International Coffee Study Group are not too optimistic about the world coffee market development. The recent agreement between Brazil and USSR about coffee deliveries of 120,000 to 240,000 bags indicates that the Soviet Bloc is well able to offer possibilities for future coffee purchases.

SOURCES: IMF International Financial Statistics; United Nations Statistical Yearbook 1958; United Nations Directory of International Trade 1958. World Bank Research material. Bulletins of the Franco-Ethiopian Chamber of Commerce, Press reports.

TABLES

- I. ETHIOPIA'S COMPOSITION OF TRADE
- II. DEVELOPMENT OF PRINCIPAL ETHIOPIAN EXPORTS AND IMPORTS
- III. ETHIOPIA'S DIRECTION OF TRADE
- IV. ETHIOPIA AND THE WORLD COFFEE PRODUCTION
- V. ESTIMATED FOREIGN CREDITS TO ETHIOPIA

I. ETHIOPIA'S COMPOSITION OF TRADE (IN % OF TOTAL VALUE)

<u>Imports</u>	<u>Average</u> <u>1948/49</u>	<u>1954</u>	<u>1955</u>	<u>1957</u>	<u>1958</u>
Cotton textiles	48	25	21	26	19
Salt	6	-	-	-	-
Sugar	5	4	3	0.3	1
Motor vehicles	3	9	9	8	9
Rubber products	3	3	3	3	3
Petroleum products	5	9	9	11	10
Metal + metal manufacturing	5	7	10	9	9
Machinery	2	6	7	9	16
<u>Exports</u>					
Coffee	25	62	56	64	59
Oilseeds	12	7	11	9	8
Hides and Skins	22	10	10	8	11
Cereals	32	7	6	5	5
Canned and frozen meat	-	2	2	1	2
Salt	-	-	-	0.2	0.3

II. DEVELOPMENT OF PRINCIPAL ETHIOPIAN EXPORTS AND IMPORTS  
(in 1000 US \$)

Year	EXPORTS			IMPORTS				
	Total	Coffee	Hides	Total	Cotton	Sugar	Fuels	Cars
1954	69.849	44.948	2.697	62.070	18.202	2.827	4.950	4.134
1955	61.600	34.104	1.615	65.031	16.520	1.440	6.080	7.160
1956	62.372	32.710	1.438	66.956	16.480	1.664	6.400	5.960
1957	78.940	51.509	1.093	66.198	17.520	512	7.688	5.280
1958	68.006	43.600	1.320	77.673	16.280	1.000	8.400	12.120

III. ETHIOPIA'S DIRECTION OF TRADE (in millions US \$)

Exports to:

Imports from:

	1956	1957	1958	1956	1957	1958
<b>TOTAL</b>	63.1	80.4	64.4	63.2	71.8	77.9
of which:						
US & CANADA	16.7	24.4	27.2	6.9	8.0	12.1
W. EUROPE	18.1	25.9	15.6	29.1	31.5	35.7
of which:						
Italy	10.3	13.8	6.2	9.8	9.6	11.9
UK	2.6	2.9	2.5	6.0	7.0	8.2
Netherlands	1.1	2.0	1.4	2.0	2.1	1.9
France	1.4	1.6	1.0	2.5	1.9	2.0
Norway	0.3	0.6	0.9	0.3	0.3	0.3
Benelux	0.3	1.8	0.5	1.8	1.8	1.9
W. Germany	0.8	1.5	1.4	5.2	6.5	7.6
<b>E. EUROPE</b>	0.2	1.8	1.8	1.5	1.5	1.9
of which:						
USSR	0.2	0.3	0.2	0.1	0.2	-
Bulgaria	-	-	-	0.2	0.1	0.1
Czechoslovakia	-	0.1	0.2	0.7	0.8	1.2
Hungary	-	-	-	0.1	0.1	-
Poland	-	-	-	-	0.1	-
Yugoslavia	-	1.4	1.4	0.4	0.2	0.6
<b>MIDDLE EAST</b>	24.6	31.8	15.5	8.9	11.2	11.1
of which:						
Aden (trans)	11.7	16.5	5.7	1.7	1.5	1.0
Egypt	1.0	0.9	0.8	2.8	2.1	0.2
Israel	1.4	1.6	1.5	0.2	0.3	0.2
Saudi Arabia	3.9	4.1	2.9	2.2	3.5	4.6
Sudan	0.8	0.8	0.9	1.3	2.4	2.1
Fr. Somaliland	5.3	6.8	2.7	0.3	0.4	0.1
<b>OTHER ASIA</b>	0.7	1.3	1.1	16.6	19.2	16.4
of which:						
India	-	-	-	9.1	9.2	6.7
Japan	0.6	0.4	0.4	6.0	8.5	8.3

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IV. ETHIOPIA AND THE WORLD COFFEE PRODUCTION  
(in 1,000 bags; 1 bag = 66 kg)

	<u>1956/57</u>	<u>1957/58</u>	<u>1958/59</u>	<u>1959/60 (est.)</u>
SOUTH AMERICA	26,190	34,495	39,130	43,670
of which:				
Brazil	18,000	25,000	30,000	34,000
ASIA	2,625	2,429	2,369	2,437
AFRICA	8,825	9,345	10,058	10,596
of which:				
Ethiopia	865	950	900	900
Fr. W. Africa	1,935	1,885	2,350	2,500
Angola	1,350	1,285	1,350	1,400

V. ESTIMATED FOREIGN CREDITS TO ETHIOPIA  
(1950-1959)

<u>A. International Credits</u>	<u>From:</u>	<u>Amount</u> (in mill. US \$)	<u>Year</u>	<u>Purpose</u>
	World Bank	5.0	1950	Highway expansion
	"	1.5	1951	Communication System
	"	15.0	1957	Highway Construction
	"	2.9	1959	Telecommunications
<b>Total (I)</b>		<b>24.4</b>		
	UNTA	1.7	1954-57)	Development grants
	UNICEF	0.3	1954-57)	
<b>Total (II)</b>		<b>26.4</b>		
<b>B. Individual Credits</b>				
	Export-Import Bank (USA)	24.0	1956	Civil Aviation
	USA	27.0	1952-58	
	W. Germany	20.0	1959	Economic aid (not further classified). Until June 1958 the amount of 17.3 million \$ was drawn upon by Ethiopia). Development Aid
	Yugoslavia	5.2	n.a.	
				Assab port modernisation

Grand Total (III) <sup>(1)</sup>  
102.6

(1) There might be additional private credits of approximately 15 million US \$. Italy is utilising her reparation payment of 16 million US \$ for the construction of the Koka Dam project on the Awash River (to be finished in 1960). This amount is not considered as a credit for economic development. A 19.3 million US \$ Yugoslav credit might be added, bringing the total up to 136.9 US \$).