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COMMITTEE OF ECONOMIC ADVISERS

ETHIOPIA AND THE SINO-SOVIET OFFENSIVE

Note by the Chairman

Attached is a revised version of AC/127-WP/55. Account has been taken of comments by the Delegations of Itely, the United Kingdom and the United States.

(Signed) F.D. GREGH

OTAN/NATO,
Paris, XVIe.

BASIC DATA(1)

Area : 1,184,000 sq.km. (twice the size of France) of which: 1/5 arable land

Population : 15 to 20 millions (1956)

Exchange Rate : The par rate for the United States dollar is 2.484 Ethiopian dollars per US dollar

Budget : (million US dollars)

	1955/56	1956/57(est)
Expenditure	52.2	53.6
Revenue	46.0	48.3
Deficit	-6.2	-5.3

Money Supply : (millions of Ethiopian dollars)

	1956	1957	1958	1959	Jan. 1960
Currency	134.0	144.5	139.3	145.9	155.9
Demand deposits	33.8	42.9	47.3	41.5	42.9
Total	167.8	187.4	186.6	187.9	198.8

Prices:

	1956	1957	1958
Cost of living Index (1953 - 100)	112	117	133

International Trade: (millions of Ethiopian dollars)

	1956	1957	1958	1959(2)
Exports	150.6	192.0	151.7	53.6
Imports	157.1	178.4	197.1	52.9
Balance	-6.5	+13.6	-45.4	+0.7

Gold and Foreign Exchange Holdings: (million US dollars - End of Period)

	1956	1957	1958	1959	Jan. 1960
Gold	4.2	4.2	4.2	3.7	3.7
Foreign Exchange	53.6	60.0	52.0	47.3	50.6
Total	57.8	64.2	56.2	51.0	54.2

Government Debt: (million US dollars)

	Dec. 1955	Dec. 1959
Internal	25.3	N/A
External	12.3	1[illegible].9
Total	37.6	N/A

(1) Ethiopia, including Eritrea.
(2) Period January - June.

ETHIOPIA AND THE SINO-SOVIET OFFENSIVE

I. INTRODUCTION

1. The Sino-Soviet bloc has been showing increasing interest in Ethiopia. Though the share of foreign trade with the bloc is still relatively unimportant, the volume of trade is increasing rapidly. At the same time, the Sino-Soviet bloc has been active in extending credit facilities to Ethiopia.

2. A trade agreement was concluded with Czechoslovakia in October 1956, followed by another agreement in December 1959, which covered economic, technical and cultural relations. The economic part of this agreement includes a $10 million credit for a 10-year period. In the past, Czechoslovakia has provided hospital equipment to a value of some $2 million. A Czech scientific mission is also undertaking geological surveys in Ethiopia. More extensive geological research will be conducted by Russian specialists in the south western region of Ethiopia.

3. The USSR has been purchasing coffee(1), hides and skins from Ethiopia in exchange for wheat and other products. 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 roubles ($100 million). This loan was to be used to finance development projects in the field of agriculture, transport, industry and trade. In November, 1959 an agreement between Ethiopia and the USSR was concluded providing for an expansion of trade between the two countries and for the use of Soviet credits. 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. A Soviet delegation visited Ethiopia in January 1960, to negotiate the implementation of the $100 million credit. It was apparently proposed to use part of this credit to construct an oil refinery at Assab on the Red Sea. Also while Haile Selassie was in Moscow a

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(1) The Soviet bloc has been showing an increasing willingness to take surplus of coffee on the world market in exchange for capital goods. The international coffee agreement of October 1959, between 33 coffee producing and coffee consuming countries, attempted to solve the problem of the world coffee surplus by fixing export quotas. In fact, world stocks are estimated at 35 million bags (a year's production). Brazil, the world's largest coffee producer, has already concluded barter agreements with Poland, East Germany and Czechoslovakia and more recently with the USSR. These agreements, as well as others which may be concluded in the future with other coffee producing countries, might well affect Ethiopia's share in the world coffee market.

technical school was offered as a gift to Ethiopia. The school, which is to be located at Bahr Dar, will have a capacity of about 1,000 students and will provide technical training for the textile and other local industries. It is expected that the cost will reach some 11 million roubles ($2.8 million). Construction of this school has already begun, using Soviet materials and technicians, and is expected to be completed within two years. In May 1960 a Soviet industrial exhibition opened in the Ethiopian capital.

4. The present effort of the Sino-Soviet bloc in Ethiopia is to be compared with that of the West in the past. Total Western assistance to Ethiopia, both bilateral and multilateral, probably reached about $140 million between 1950 and 1959 (see Annex V). Up until June 1958, Ethiopia had drawn $17.3 million of a total sum of $27 million granted by the United States in the period 1952-1958. On the other hand, the overwhelming proportion of Ethiopia's foreign trade is still with Italy, the United Kingdom and other countries of **the Free World.**

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 arreas 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 transport system are necessary for a better utilisation of the physical resources of the country. Through its deep water parts in Eritrea the country has direct access to the sea.

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 of 3 hectarers 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, 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 was carried on for some 10 years but no oil was discovered. Prospecting concessions have been granted to some foreign firms.

8. There are a number of relatively small plants in Ethiopia engaged in the refinery of sugar and the production of cement, bricks, beer, canned meat, soap and a number of other consumer goods. These manufacturing industries, however, only account for about 2% of total output.

9. The National Income is expected to increase as follows:

Sector	1957 (Million US dollars)	1961 (planned) (Million US dollars)	% increase
Agriculture and forestry	537.6	598.0	11
Mining(1)	1.2	1.6	33
Manufacturing industries	12.4	22.8	84
Electricity	1.2	2.4	100
Handicrafts	25.2	28.4	13
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
TOTAL	721.2	833.6	16%

III. THE POSITION OF COFFEE

10. Despite long-term projects for a more diversified production pattern, coffee remains Ethiopia's principal economic asset. On the basis of the two-year coffee production cycle, the extension of the coffe 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 thousand tons)

	1951	1953	1954	1955	1956	1957	1958
World	2,330	2,480	2,490	2,860	3,500	3,251	3,513
Ethiopia	35	40	46	54	52	48	58

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

11. Ethiopia is a comparative newcomer on the world market, possessing a considerable advantage over Latin America and over most of her African competitors because of low production cost. Ethiopia has expanded production greatly since 1950, the level of production in 1958 being about 40% above that of 1950. 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 represent nearly two-thirds of total export earnings, fluctuations in world coffee prices have a strong impact on the balance of trade and on the budgetary position of the country. Thus the fall in world coffee prices has meant a loss of nearly $14 million in export earnings. Fluctuations of coffee prices are indicated below:

Coffee Price Fluctuations
(Annual average in US $ per 100 lb)

	1949	1950	1951	1952	1953	1954	1958	1959
Wholesale price(1)	27.47	50.91	54.30	54.12	58.46	78.30	41.50	33.50

12. The economic development of Ethiopia depends primarily on coffee exports. Changes since 1950 may be seen below:

Coffee Exports

	Average 1948-1949	1950	1953	1954	1955	1957	1958
Value (million US $)	7.4	13.1	40.4	40.1	36.3	49.5	33.9
Volume (1953 = 100)	-	43	100	72	96	115	91
% of total exports	31	46	59	62	56	64	55

13. The Ethiopian Government is developing a programme for the improvement of the quality of coffee by better methods of cleaning and grading. New roads, under construction, will open up areas with large potentialities. It is felt that by 1961 coffee production will have risen by some 30% above the level prevailing in 1957.

(1) Santos 4 coffee on New York market.

IV. FOREIGN TRADE

14. The recent decline in coffee exports has adversely affected the overall level of exports, as may be seen from the following table:

(Million US dollars)

	1956	1957	1958	1959 (Jan.-June)
Exports	60.6	77.3	61.1	21.6
Imports	63.2	71.8	79.4	21.3

The greater part of foreign trade is conducted with such countries of the Free World as Italy, the United Kingdom, India and Japan. Trade with the Sino-Soviet Bloc, while growing, still only represents some 2 to 3% of total trade (see Annex Table III for details).

15. Foreign exchange reserves have been falling because of a decline in the price and volume of coffee exports and increasing imports of consumer goods since 1958. In view of the general worsening of the foreign exchange situation the Ethiopian State Bank had to introduce restrictive measures in September 1959. Since the end of last year, however, there have been some signs of an improvement in the foreign exchange situation.

16. A mission from the International Bank for Reconstruction and Development, which visited Ethiopia in April 1957, felt, however, that a balance of payments deficit of moderate magnitude should not give rise to major problems over the next several years. The decline in exports has undoubtedly been causing 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 from the application of a sliding scale tax on coffee exports(1), thus increasing the government's cash balances. In the present period of declining prices of coffee this sliding scale tax does not apply.

V. THE FIVE-YEAR DEVELOPMENT PLAN (1957-1961)

17. A five-year development plan has been drawn up(2) which calls for a growth in output of 3.8% per annum over the period

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(1) The coffee export tax consists of a fixed tax rate of $80 per ton and a sliding scale tax which becomes operative when the price of Santos 4 coffee reaches 55 cents per pound in the New York market.

(2) This plan was established with the assistance of Yugoslav economists. According to a report made by the IBRD this plan shows little evidence of Marxist doctrine.

1957 to 1961. This would represent a more rapid increase than during the previous seven years, when the national income rose on an annual average by 2% to 2.5%. Since the population is expected to rise by some 1.5% per annum, per capita income should rise appreciably. In fact it is assumed that per capita income will rise by some 16% between 1957 and 1961, permitting a shift from consumption to investment. Thus the share of investment in the national income should rise during this period from 5.4% to 7.6% while the share of consumption should fall from 90.9% to 88.4%. Particular emphasis is placed under the development plan on transportation and communications, investment in this sector is planned to account for 35.6% total investments, the share of agriculture being 27%, of industry 8.5% and of electric power 6.4%. An increase of some 30% in coffee exports should allow to contribute to a marked rise in total exports during the period of the plan. Imports, on the other hand, are also expected to rise appreciably, especially of capital and semi-finished goods. However, since it is felt that foreign exchange requirements will not be able to be fully met in the short-run from export proceeds, the plan recommends that a policy be adopted which will attract foreign capital on a larger scale.

18. Total investments under this plan are calculated to reach $255 million, some two-thirds of which is expected to come from domestic sources, as may be seen below:

Financing of Five-Year Plan

Domestic Sources	(Million US dollars)
Budget appropriation	58
Bank loans	17
Private investment	24
Public enterprises	4
Rural investment (in kind)	56
Budget deficit	15
Foreign Sources	
Foreign loans / Foreign aid	57
Private investment	20
Reparations	4
	255

19. The Government is considering or already implementing a number of the 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),

the improvement of airfields, improvements in the quality of coffee production and development of food-processing industries. Whether Ethiopia will be able to meet the goals of the development plan is, however, still uncertain. Considerable difficulty may well be experienced securing the domestic resources forecast. As already indicated, the fall in coffee exports has adversely affected the tax yields. This has already caused some budget expenditures to be curtailed, such as for construction. In addition the Government has been reducing part of the public debt held by the State Bank. Foreign aid will also plan a rôle in the development plan; some of this aid will come from the Sino-Soviet Bloc.

VI. CURRENT ECONOMIC DIFFICULTIES

20. As the result of the fall in coffee prices in the world market, the foreign exchange situation has been worsening. This led the State Bank to introduce restrictive measures on 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 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 future development of the Ethiopian economy will continue to depend on the world coffee situation. Studies undertaken by the FAO and the International Coffee Study Group are not too optimistic about the world coffee market development. The recent trade agreement between the USSR and Brazil, under which the USSR is reported to have agreed to take some 360,000 bags of Brazilian coffee in 1960, indicates the extent to which the Sino-Soviet Bloc is prepared to intervene on the world coffe market.

TABLES

TABLE I

COMPOSITION OF EXTERNAL TRADE

(% of imports and exports)

	Average 1948/49	1954	1955	1957	1958
Imports					
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 and metal manufacturing	5	7	10	9	9
Machinery	2	6	7	9	16
Other	23	37	38	33.7	33
Total	100	100	100	100	100
Exports					
Coffee	25	62	56	64	55
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
Other	9	12	15	12.8	10.7
Total	100	100	100	100	100

TABLE II

DEVELOPMENT OF PRINCIPAL ETHIOPIAN EXPORTS AND IMPORTS

(million Ethiopian dollars)

	1951	1952	1953	1954	1955	1956	1957	1958	1959 Jan/June
EXPORTS	116.8	106.5	169.4	160.3	162.2	150.6	192.0	151.7	53.6
Coffee	62.7	50.3	100.3	99.5	90.2	80.1	123.0	84.1	30.7
Hides & Skins	30.8	14.6	18.4	16.1	16.0	15.9	15.2	15.4	5.9
Cereals	8.8	19.0	17.7	11.1	9.7	8.1	10.7	6.9	3.6
Oilseeds	8.9	14.6	15.8	11.3	18.2	17.8	17.9	11.7	3.4
IMPORTS	104.6	115.2	137.9	160.1	168.0	157.1	178.4	197.1	52.9

Source: International Monetary Fund, International Financial Statistics Vol. XIII, No.4 (April 1960) pp.112-113.

TABLE III

DIRECTION OF EXTERNAL TRADE

(Million US dollars)

	EXPORTS			IMPORTS		
	1956	1957	1958	1956	1957	1958
TOTAL	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
E. EUROPE	0.2	1.8	1.8	1.8	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
MIDDLE EAST	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
ASIA	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

Source: United Nations, Direction of International Trade, Series T, Vol. X, No.8 (New York, 1959) pp. 194-195

TABLE IV

ETHIOPIA AND WORLD COFEE PRODUCTION

(Thousand bags)(1)

	1956/57	1957/58	1958/59	1959/60(est.)
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

(1) 1 bag = 66 kg.

TABLE V

FOREIGN LOANS AND GRANTS ACCORDED TO ETHIOPIA, 1950 - 1959

Source	Year	Purpose	Loan or Grant	Amount (million dollars)
A. Multilateral				
IBRD	1950	Highway expansion	loan	5.0
IBRD	1951	Communication system	loan	1.5
IBRD	1957	Highway construction	loan	15.0
IBRD	1959	Telecommunications	loan	2.9
UNTA	1954/57	Development	grant	1.7
UNICEF	1954/57	Welfare	grant	0.3
	Total multilateral			26.4
B. Bilateral				
Ex-Im Bank (US)	1956	Civil aviation	loan	24.0
United States	1952/58	Economic assistance. (Up to June 1958 $17.3 million was drawn)	grant	27.0 (1)
West Germany	1959	Development assistance	loan	20.0
Yugoslavia	-	Assab port modernisation	loan	5.2
	Total bilateral			76.2
Total multilateral and bilateral loans and grants				102.6 (2)

(1) Emperor Haile Selassie is reported to have stated in January, 1960 that economic and military assistance from the United States totalled more than $107 million in the last seven years.

(2) This total does not include the following:

(a) private investments or credits estimated at $15 million;
(b) Italian reparations payments of $16 million (used for the construction of the Koka Dam);
(c) a reported loan of $19.3 million from Yugoslavia

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