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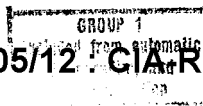
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Current Support Brief

IMPACT OF THE SKOPJE EARTHQUAKE  
ON YUGOSLAV IMPORT NEEDS



CIA/RR CB 63-79

3 October 1963

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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IMPACT OF THE SKOPJE EARTHQUAKE  
ON YUGOSLAV IMPORT NEEDS

The extensive damage caused by the recent earthquake at Skopje has prompted Yugoslavia to seek additional foreign aid to minimize the domestic impact of the reconstruction program. The USSR is providing a factory for the manufacture of prefabricated housing components, Czechoslovakia has offered a credit of \$7 million, and the US has transferred \$50 million in surplus dinar "counterpart funds" from the US account to the Yugoslav account -- a bookkeeping transaction that adds nothing to Yugoslav resources. The earthquake also is being used to justify requests for additional surplus agricultural products from the US and for assistance from international organizations and Western European countries. Yugoslav officials estimate that required imports from the West, which they hope will be covered largely by foreign aid, may average as much as \$50 million annually for 5 years.

Because of the urgent need for prefabricated houses at Skopje and the difficulty of changing domestic programs quickly, Yugoslavia needs substantial aid this year to avoid balance-of-payments problems. In subsequent years, however, economic growth and the balance of payments should not be affected seriously by the disaster even if the amount of foreign aid is less than the Yugoslavs hope. Reconstruction of Skopje will be spread over at least 5 years, and surplus labor is readily available in Macedonia. Only part of the effort consequently need be at the expense of other activities, and negative effects on these activities will be widely dispersed.

I. Introduction

Skopje, capital of the republic of Macedonia and fourth largest city in Yugoslavia, was largely destroyed by the earthquake of 26 July. More than 1,000 persons were killed, and 80 to 90 percent of the dwellings were demolished or damaged beyond use, leaving homeless most of the population of 210,000. Many factories, stores, and public buildings were

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destroyed, public utilities were disrupted, and normal economic activity was brought to a standstill.

Foreign countries were quick to respond with emergency aid. A US Army field hospital was flown in from West Germany 2 days after the earthquake, making a striking impression on the people of Belgrade as the truck convoy moved through the city on the way to the Skopje area. The US and various countries in Western and Eastern Europe speedily provided medical supplies, blankets, and other emergency aid. The USSR promptly offered drugs and food, as well as cement and lumber, but was slow in delivering anything to the disaster area.

Four days after the earthquake the Yugoslav government formally requested assistance from "friendly" foreign countries in providing temporary housing at Skopje and in the long-term task of rebuilding the city. The immediate task is the provision before winter of housing for between 120,000 and 150,000 persons, who will operate essential public services, get the city's economy functioning again, and start rebuilding the city. This housing is to be obtained by rebuilding the dwellings in Skopje that survived the earthquake and by erecting pre-fabricated buildings in a number of peripheral settlements. Full-scale efforts to build a new Skopje will begin next spring and continue for a period of at least 5 years. Although the Skopje area has experienced several minor tremors since 26 July, Macedonian authorities seem determined for political and economic reasons to build the city at the same location.

## 2. Magnitude of the Reconstruction Program

Earliest Yugoslav estimates put the cost of rebuilding Skopje at the dinar equivalent of between \$500 million and \$2.5 billion. More recently, the regime estimated the cost at the dinar equivalent of \$150 million annually during the next 5 years, for a total of \$750 million.\* The

\* The conversion from dinars was made (by Yugoslav officials or the American Embassy) at the official rate of exchange of 750 dinars to US \$1. This rate substantially understates the purchasing power of the dinar for goods in general but appears to be of an acceptable order of magnitude for investment goods.

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estimated annual cost of the program in dinars equals nearly 3 percent of Yugoslavia's gross national product and about 9 percent of total expenditures for fixed investment in 1962.

The earthquake destroyed or made uninhabitable about 35,000 dwelling units, which amount to about 1 percent of the total Yugoslav stock of housing and one-third of the number of dwellings constructed annually in 1961-62. Replacement of these dwellings during the next 5 years would, in itself, require an increase of 7 percent in the recent level of housing construction. Considerable damage also was done to industrial facilities in the Skopje area, which normally account for about one-third of industrial production in Macedonia but only about 1 percent of total industrial production in Yugoslavia. Of the 45 industrial plants in the area, 37 have now been put into partial operation, but the others remain severely damaged.

The distinctive economic organization of Yugoslavia and frictions among its six republics present some problems in rebuilding Skopje apart from the availability of resources nationally. Production and distribution of individual products are not centrally planned in Yugoslavia, and a large share of investment activity is decentralized. The federal government accounted for only 30 percent of total investment expenditures on fixed capital in the socialist sector in 1962, and its ability to channel funds directly to a special project is correspondingly limited. However, it can take steps to raise federal revenues for this purpose. The federal government also exercises a large measure of control over imports and can enforce priorities for Skopje.

Yugoslavia's "nationalities" problem -- which also embraces differences in religion, language, and economic and cultural development -- makes itself felt even in disaster. Macedonian officials have made it clear that they expect to have a leading voice in the reconstruction program even though Macedonia, as one of the less developed areas of Yugoslavia, has only limited funds for such a project. The other republics reportedly are apprehensive about how the financial burden of reconstructing Skopje will be borne, fearing that levies made on them will restrict their own economic programs.

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3. Foreign Aid Already Promised

Yugoslavia already has received several commitments of foreign aid for the rebuilding of Skopje. Czechoslovakia has offered the equivalent of \$7 million as a credit, and the USSR is providing a factory for the manufacture of prefabricated housing components. Soviet technicians arrived in the Skopje area in mid-August to make preparations for construction of the factory, which has a planned annual capacity of 35,000 square meters of floorspace, or roughly 800 dwelling units of average Yugoslav size.

The US is making available for approved projects the equivalent of \$50 million in "counterpart funds" that arose from the sale for dinars of US surplus agricultural products and were earmarked for US use but are not needed. This assistance is of little value, however, because it adds nothing to Yugoslav resources. Even the psychological effect of the gesture is dampened by the fact that only one-half of the \$50 million is a grant, the remainder being offered as a long-term loan.

The UK has promised Yugoslavia a long-term credit equivalent to \$1.4 million for reconstruction needs at Skopje. Various other countries have sent small cash donations and other types of aid that were directed more to emergency needs than to the long-term task of rebuilding the city.

4. Need for Additional Foreign Aid

Yugoslavia is actively seeking additional foreign aid for the reconstruction of Skopje. Yugoslav officials have indicated that goods to be imported from Western countries for Skopje may account for up to one-third of the total cost of the program during the next 5 years and that the program will also cause some loss of exports. They estimate the combined effect on the balance of payments at \$70 million in 1963 and \$89 million in 1964 on the assumption that domestic programs are not changed greatly and that foreign financing will be available.

The Foreign Assistance Act of 1962 prohibits new extensions of US aid to Yugoslavia under the programs administered by the Agency

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for International Development. An exception could be made only if the President determined that Yugoslavia is not controlled by the international Communist conspiracy, that extension of aid would promote Yugoslav independence from international Communism, and that such aid is vital to the security of the US. It seems likely that this prohibition, which applies to all Communist countries, will be retained in the foreign aid program now before Congress. There is no legal impediment, however, to credits from the Export-Import Bank or to deliveries of surplus agricultural commodities under Public Law 480, and Yugoslavia is exploring both possibilities.

Yugoslavia has requested delivery under Public Law 480 of 500,000 metric tons of wheat, 100,000 metric tons of soybeans and other fodder, 30,000 metric tons of edible oils, 30,000 metric tons of cotton, and 1,000 metric tons of butter. The total value of these products is at least \$60 million. The regime claims that it was planning to buy these goods in the West but that it must now obtain them under Public Law 480 to avoid serious strain on the balance of payments.

The Yugoslavs would like a moratorium on payments of interest and principal arising from their debts with the US and Western European countries -- especially if new credits are not available. In addition, Yugoslavia is seeking a 2-year postponement of a \$15 million obligation due the International Monetary Fund in January 1964 plus a new drawing of \$30 million and is interested in special credits from the International Bank for Reconstruction and Development. Although the appeal for aid has been directed largely to Western countries, Tito also appears to be working the other side of the street. The regime reportedly hopes that the USSR will replace seven destroyed industrial plants that had been producing such goods as cement, glass, textiles, plastics, and certain types of industrial equipment. According to this report, the cost of the seven factories would be between \$25 million and \$30 million.

Yugoslavia obviously is trying to maximize the amount of foreign aid for Skopje and to minimize adjustments in the domestic economy. Substantial aid is required this year to avoid serious strain on the balance of payments because of the urgent need for prefabricated

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houses and other goods at Skopje and the difficulty of changing domestic programs quickly. Over the long term, however, the rate of economic growth and the balance of payments should not be affected seriously even if the campaign for aid is only partly successful.

The Skopje program involves largely the building or rebuilding of dwellings, various public facilities, and a limited number of industrial plants. The principal need thus is for construction labor, ordinary construction materials, and simple types of machinery and equipment. As one of the least developed areas in Yugoslavia, Macedonia probably has a considerable amount of excess labor that could be used at Skopje with little adverse effect on other economic activities. Requirements for expensive, technically advanced industrial equipment should not be particularly large, because the area is not a major center of industry. Most of the needed resources can be obtained within Yugoslavia if the regime will make the effort.

The repercussions of the program can be dispersed widely, limiting its impact on the Yugoslav economy. The principal effort at Skopje is planned to be spread over the next 5 years and may well be stretched out beyond that. Marginal adjustments can be made in both imports and exports, in expenditures for both productive and nonproductive investment, and in the relation of total investment to the gross national product. Yugoslavia's need for substantial aid this year may be conceded. But the regime's estimate that reconstruction of Skopje will require an extra \$59 million in imports and will cause a loss of \$30 million in exports in 1964 implies a minimum domestic effort.

##### 5. Financing the Reconstruction of Skopje

Plans for financing the work at Skopje already are taking shape. Petar Stambolic, Chairman of the Federal Executive Council, indicated recently that a federal fund will be created for this purpose. During 1963-64 the Skopje reconstruction fund tentatively is scheduled to receive 30 billion dinars in general federal revenues; 30 billion dinars from a national loan to aid Skopje; 10 billion dinars in voluntary contributions of enterprises and individuals; 65 billion dinars from a special

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tax on the incomes of economic enterprises and individuals and on the expenditures of local units of government; and 21 billion dinars in foreign aid. At the official rate of exchange the scheduled total is \$208 million, of which \$28 million is expected to be provided by foreign aid.

Aside from the local labor and materials obtainable within Macedonia, most of the burden of rebuilding Skopje unavoidably will fall on the larger and more developed republics -- Slovenia, Croatia, and Serbia. These three republics provide a large share of federal revenues, and they have a large share of the economic activity subject to the special tax.

The regime clearly wants the main burden of the reconstruction effort to fall on the consumption of the population rather than on productive investment. According to Stambolic, people will have to reduce their consumption by 1 or 2 percent at most, and they may be able to offset the tax through a more rapid growth of labor productivity. The regime hopes that this tax can be eliminated or reduced after 1964. In contrast to the urgent appeals that Yugoslav officials have made for foreign aid, Stambolic recently told the Federal Assembly that none of the measures contemplated will change perceptibly the plans of political organs or economic enterprises or will threaten their prospects of development.

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Analyst:

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