ECONOMIC RELATIONS BETWEEN COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE AND LESS DEVELOPED COUNTRIES — TRENDS AFTER 1970 —

Dissertation submitted to Jawaharlal Nehru University
in partial fulfilment of the requirements
for the award of the Degree of
MASTER OF PHILOSOPHY

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1989

for

my mother

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CERTIFICATE

This dissertation entitled ECONOMIC RELATIONS BETWEEN COUNCIL FOR MUTUAL ECONOMIC ASSISTANCE AND LESS DEVELOPED COUNTRIES-TRENDS AFTER 1970 submitted by Ankur Gupta, Centre for Soviet and East European Studies, School of International Studies, Jawaharlal Nehru University, New Delhi, for the award of the degree of Master of Philosophy, is an original work and has not been submitted so far, in part or full, for any other degree or diploma of any University.

This may be placed before the examiners for evaluation for the award of the degree of Master of Philosophy.

(Prof. R.R.Sharma)
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A C K N O W L E D G E M E N T S

This work owes an enormous debt of gratitude to certain individuals - whose unwavering encouragement and assistance have been inevitable for its accomplishment. My supervisor, Professor Arvind Vyas, has spared no effort in rendering his utmost help and consistently imparting illuminated guidance, which has been indispensable to this work . I am infinitely indebted to him.

I must, however, also thank Professor Devendra Kaushik of CSEES, JNU and Dr.J.S. Tyagi of Meerut University for helping me out most generously at various crucial stages of my career.

Since the greater part of this dissertation is based on material available in a number of libraries, I regard it my duty to thank the staff members of libraries of Jawaharlal Nehru University, Indian Institute of Foreign Trade, Soviet Cultural Centre, United Nations, American Centre, Indian Council of World Affairs and Hungarian Cultural and Information Centre.

Words are too poor a medium to express my feelings for Anshu and Seema, in whom, I have ceaselessly found undrying pools of affectionate warmth and personal kindness. Both of these fill an appreciable space in my heart.

Almost entire credit for making this work presentable goes to Adeel Mehdi, whose mere presence around me is cause enough for my cheerfulness, and to revered K.L.Rathi Superman. I consider myself as fortunate for their best has always been available to me.

I also wish to thank all the staff members of Computics, and in particular Sangeeta, for her efficient word processing with remarkable patience, when I was racing against time.

Finally, I wish to record my sincerest respect to my parents, who have made me, what I am.

I accept the limitations of this work with humility.

Ankur Gupta.

Date: 21/7/89 (ANKUR GUPTA)

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PREFACE

The objective of this study is to examine the nature of economic relations of Council for Mutual Economic Assistance and developing countries during the period 1970's and early 80's with some tentative projections for the 1990's and possibly for the year 2000, also to examine some of the major issues in the context of CMEA-developing countries trade and eco. relations. Issues like:

(a) The growth and composition of CMEA-developing countries trade.

(b) The question of trade diversion versus trade creation.

(c) The movement of the terms of trade-infavour of or against developing countries.

(d) Reexport of switch trade on the part of the USSR and Eastern Europe to hard currency areas.

(e) Should developing countries (or more particularly India) switch to a system of trade in convertible currency with the USSR? and

(f) An appraisal of soviet and East European project aid.

This is a humble effort at laying a basic framework for future rigerous research work. Inspite of best efforts I have not been able to present a coherent frame work mainly due to inconsistencies in presentation of data by different countries. The study is divided into four chapters. The Introduction firstly give a general understanding on trade, and the present state of world comprising three main groups of countries, capitalist, socialist and the other so called "Third world". As at present the global setting is such that no country can remain in isolation, of late the socialist countries of Eastern Europe start having trade relations with developing countries. One can trace out in the same chapter, the reasons for increasing trade relations between socialist countries of Eastern Europe and developing countries from the viewpoint of both the groups.

One of the characteristics of trade relation of socialist countries is that these countries practice bilateralism in their international economic relation as a rule. In the next part of the same chapter we will analyse historically, the various methods of payment management of economic relations of these countries. Then after giving a brief introduction about the Council for Mutual Economic Assistance, for a better understanding of composition and direction of trade and the various socio-economic and political factors influencing it, we give a typology of the developing countries.

The next two chapters. i.e. chapter two and three deals with the actual position of the socialist countries of Eastern Europe (including USSR) and the developing countries in their trade and economic relations, the pattern and composition of trade and the trends in this field after 1970.

Chapter 3 deals exclusively with the soviet Union, where as the rest namely Bulgaria, Czechoslovakia, German Democratic Repulic, Hungary, Poland are dealt in chapter two. Here we have not taken the case of Romania mainly because of two reasons (along with lack of availability of required data): first, Romania has a very insignificant role in trade as compared to other CMEA countries, and second, because of self proclamation of Romania as a developing country.

Here a question may arise that why Soviet Union is taken seperately and is not included with the rest of the CMEA members? The reason for it is that there are substantial differences between the "less developed countries (LDC's henceforth)-USSR" and "LDC's- eastern Europe " pattern, these differences apear increasingly clear in the recent years. One can sum them as follows:

(i) For the countries of Eastern Europe, trade relations with the third world represent a smaller share in their total.

(ii) The commodity pattern is also very different .As we will see later in detail, the six receive a very low share of their manufacture imports from LDC's. Their share of oil imports has increased (in contrast to the USSR), relative to their imports of raw materials, their share of food imports is decreasing and remain much lower than in the soviet case. on the side of exports, machinary sales are decreasing, and sales of food or semifinished goods are growing proportionately.

(iii) East Europe's trade with the LDC's seems to be guided more than in the soviet case, by purely economic considerations. In the recent years a major aim has been the earning of hard currency (exports of the six to the third world increased by over 20 percent during 1981-82, imports decreased by over 25 percent).

(iv) The financial flows of aid are also less important for East Europe, in comparison. Whatever the conflicting evaluations of the amount of total aid, the USSR bears the main burden of it.

Finally the last chapter deals with some of the major issues of controversy in the trade and economic relation between CMEA and developing countries. Issues like the role of balance of payment in trade relations, the performance of CMEA members in providing aid to developing countries and issues attached to the practice of bilateralism like switch trading, terms of trade position etc.

One of the important suggestion of this essay is that over the past decades a relatively limited direct economic interdependence has evolved between the two groups of countries and, generally speaking, they are of residual importance for one another. The domestic and international environment however will under go considerable changes in the following period with possible impact on the conditions and expansion of East-South exchange. Thus, before concluding our study an attempet is made to discern the most important "push" and "pull" factors which are expected to condition the prospects for East-South economic Relations.

CHAPTER 1

INTRODUCTION

International problems, economic as well as political arise out of the peculiar structure of our planet, which, physically a single and indivisible unit, is divided politically into a number of separate state. Politically each of these state seeks independence and is jealous of its °sovereignity' but owing to the uneven distribution of resources on the earth's surface and underneath it - the various states are united by links of economics inter dependence. The quest for better living condition has driven men, since the time immemorial, to travel, exploration, migration and trade. The world economy today is characterised by extra ordinary socio-economic hetrogeneity as there are capitalist and socialist countries undergoing developments according to their own intrinsic law.

In the present state of world development the further evolution of mankind, particularly of the people of the developing countries, must come essentially by their wise choice of the two economic and social system before them. Unlike capitalist system, the socialist system is comparatively new. But its soul is as old as man himself. The socialist system and its thoughts emerged out of the labours of two great man in the not distance past. Marx formulated its theories and Lenin put them into practice. The Soviet socialist system is now over seventy years old. It grew up in embattled conditions. The imperialists tried to strangle it in its cradle. So a war of altrition was foisted on it by the Nazis. The trials the socialist system had thus to face had been immence. But today it is firmly established in several states and it has millions of adherents all over the world.

While there is remarkable similarilty of major goals of the centrally planned and capitalist system like rapid growth, full employment and price stability, the fundamental political and economic characteristics differ. The most obvious differences are greater centralisation in one examplified by public ownership of all means of production and control of national economy and central planning, and, in the other, little or no governmental control and a greater degree of decentralisation in planning and the operation of market. Central planning by direct control has implications for the socialist country's international economic relation since they involve state monopoly of foreign trading, lack of correlation between domestic and international prices, development of irrational prices, inconvertibility of currency, strict foreign exchange control central planning of economic relations and control through planned targets bilaterally.[1]

Though the competition between the few system is essentially on the economic plane, concerned with man's means of existence it is more than this. Today there are over 30 million unemployed in the advanced western countries and about 100 million who are below the poverty line. There is no such thing as "poverty line" in the socialist countries and if we take the rate of growth of the economy as an indicator of efficiency the socialist system has achived a higher rate of constant growth than the capitalist system. Cooperation with the liberated states of Asia, Africa and Latin America is one of the basic principles of the international policy of the countries of the socialist community. In the report of the commission on the National and the colonial question on the second Congress of the communist international, Lenin stressed the objective necessity of an alliance with the national liberation movement, and the direct connection of the successes of the latter with the support of the international proletariate. Lenin said:

> "It is unquestionable that the proletariate of the advanced countries can and should give help to the working masses of the backward countries, and that the backward countries can emerge from their present stage of development when the victorious proletariat of the soviet republics extends a helping hand of these masses and is in a position to give them support".[2]

The capitalist state is no more the impartial onlooker in a competitive capitalist economic system. In fact domestic competition has been found by capitalism to be too expensive. It has been shifted this competition on to the world outside, to international trade and international production.[3] Here the small firm has no chance, only giant organisations with the full backing of the state can hope to servive, except where international capitalist associations are formed to divide among themselves in the world market.

In such a situation it is not surprising to see various problems faced by newely independent or less developed countries through their interaction with other countries in the course of their economic development. Historically if we see, even after independence the main trading partners of former colonies and other dependent countries continued to be the former metropolies or other capitalist states, but with the course of time the socialist block start emerging as the important trading partner of developed countries. What are the reasons for this increase in trade between socialist and developing countries?

One of the fundamental reason is the outflow of resources from the developing countries to the developed capitalist countries. In a carefully documented monograph, the basic argument has been summed up as follows: °At the time of their colonial domination the metropolises resorted to political coercion in order to expropriate on a large scale. The wealth of the subjugated nations, to exploit their natural and human resources, and to adopt their economies to their own needs and interest. On the one hand it was oue of the most important sources of rapid economic development of the metropolises, and other capitalist countries. On the other hand, it showed down for many years the development of colonies, and other dependent countries, the industrialisation of their economic, educational and scientific progress. It gave rise to a structure of production and foreign trade, and its own geographic production that was for from meeting their own national interests, and it determined their future versatile and forced dependence on the metropolian countries and on the world capitalist economy on the whole, on its characteristic conditions, laws, norms and forms of international exchange.[4]

Former colonies and other dependent countries, at present developing states, have gained political independence but they lacked sufficient financial resources to reorganise the structure of economies from the past, to generate their rapid economic develpment in correspondence with their legitimate economic interest and needs. In accordance to the principle of historical justice, it would be logical to expect developed capitalist countries to render selfless and economic active assitance to the newly-independent states, which would constitute a partial redistribution, a return of the wealth which they had appropriated from them in the past.[5]

In reality in the post colonial era the capitalist countries still keep pumping out the resources from the newly independent states but in new forms.[6]

The new forms of pumping out resources are the following:

(i) payment of profits by developing countries from direct investments made by developed capitalist countries - Western monopolies set up their affiliates by using direct investments and get high profits from such investment. This is a traditional way in which western monopolies appropriate resources of developing countries ---- according to UNCTAD data - foreign investors had received from their direct investments made in developing countries, The total amount of some 217.6 billion dollars in profits (officially declared) in the 1970-83 period. The profit rate in the same period averaged around 19.2%. The different years it fluctuated from 12.8% to 25.7%.[7]

(ii) Losses of developing countries through their scientific and technological dependence on developed capitalist countries.[8]

(iii) The non-reimbursable outflow of resources from developing countries, through trade with developed capitalist countries - developing countries are still tied up to western markets. The later account for 64.7% of their exports and 61.3% of their imports in the 1981 - 83 period. Most of the developing countries still export largely raw materials and primary products as they were in the past.[9]

(iv) Though productionism and other discriminatory measures of Capitalist states aggregate the non-equivalence of their trade with developing countries, causing serious direct and indirect damage to their economies.[10]

(v) The outflow of financial resources from credits developing countries through credits received from developed capitalists countries - all the external credits and loans received by developing countries were practically spent on repayment of foreign investors. In the 1970-83 period interest payments on external debats and repayments reached a sum of 944 billion dollars.[11]

(vi) Gains received by developed capitalist countries by attracting specialists and labour force from developing countries.[12]

(vii) Finally, we have varying estimates of the total volume of outflow of resources from developing countries to developed captialist-countries - according to the report of the Rome Club prepared under the supervision of J. Tinbergen a Western economist, in 1986, the annual classes to developing countries in the early 70's were estimated at 50 billion to 100 billion dollars ---- Volkov a Soviet economist, acting on the basis of data largely covering the latter half of the 70's estimated to total outflow of resources at 40 billion dollars.[13]

To conclude °a large scale non compensated outflow of resources - material, financial and others takes place from the newly independent countries to the Western countries'.[14]

Brief details of the different forms of the outflow of resources that takes place is outlined below:

(a) The volume of direct foreign investments made in developing countries had totalled according to various estimates, from 161 billion dollars by the end of 1983 as against 32 billion dollars in 1967.[15]

(b) The costs of the developinng countries associated with the purchase of technologies are represented out only by payments for licences, technical experience ('Know how') for the right, to use trade marks and other industrial rights. Still larger sums have to be paid for the accompaning equipment, spare parts, and other components of the finished products, technical services, management, and marketing experience etc.

(c) According to UNCTAD's estimate made in the early 80's developing countries paid about 10 billion dollars annually in direct payments for the use of patents, licenses etc. again, according to UNCTAD data, in 1980, 3 to 6 of the largest transitional corporations marketed for 90-95% of iron ore products of developing countries, 90% of forest products and pineapple exports, 85-90% of cocoa exports, 75-80% banana and natural rubber exports, 70% of rice, 60% of sugar, 50-60% of phosphate exports.[16]

Thus we have seen that during the years there is a marked shift in the strategy of foreign trade policy of developing countries prefering socialist countries over capitalist countries. But this is only one side of the coin, to understand properly the reasons for increasing trade between socialist and developing countries from the point of view of socialist countries we have to see the function and role of foreign trade in socialist economies.

The function of foreign trade in the socialist economy differ from those in the developed market economy. Exports play the more prominent role in foreign trade of developed market countries, whereas in socialist economies imports perform an important functions. For it we have to understand firstly the characteristics of socialist and capitalist economies which shows a contrast. While the developed capitalist economies operate under conditions of structural exess of industrial capacities, socialist economies face productive capacities lagging behind the expanding domestic demand. It does not follow that excess capacities do not appear in the socialist or developing ountries. The surplus capacity is caused, however, in this case not so much by the lack of effective demand but, as a rule, by bottlenecks in the supply of productive inputs, transportation, or deficencies in the organisation of production. Even when there occurs a lack of effective demand as a cause of the underutilisation of capacities, it is a temporary rather than a structural phenomenon. It stems from disproportion emerging in the course of economic expansion and usually disappears with the further growth of the economy and of the welfare of the society.

For this reason, socialist countries were described by Kalecki as supply-led or 'supply constrained economies', while developed market economies were labelled "demand constrained economies".[17]

According to L.R. Klein °the centrally planned economies are for the most part industrial economies and have the same needs for supply side analysis. In their case, the supply side has perhaps been excessively developed with inadequate attention paid to the demand side, not from the viewpoint of deficient demand, but from the view point of chronic excess of demand with latent inflationary pressures. The same idea was also expressed by J. Kornai,[18] G.R. Feiwal coined a term "high pressure economy" to describe the realities of economic development in socialist countries.[19]

The two main reasons among the other to explain the existence of such a difference between the mode of operation of the socialist and of the developed capitalist economy can be summarised as follows:-

(i) Adherence to the basic law of socialism - namely to satisfy the evergrowing needs of the society and to secure the universal progress and prosperity of its members - implies that the growth of productive capacities should be directed towards meeting the real needs of the population in such circumstances, structural excess capacities characteristic of the wasteful mass consumption society are unlikely to emerge. Moreover, the effects of the operation of the law are greatly intensified by the timelag in entering the path of accelerated economic growth vis-a-vis the developed capitalist countries, this causes of well known demonstration effect., enhancing consumer expectation and bringing about the unending race between growing demand and the possibilities of its satisfaction.

(ii) Implementation of the principle of the planned and proportional development of the economy a basic tenet of socialist economy thought - causes the central planner to abhor installation of surplus capacities or the growth of capacities outpacing the growth of demand. Surplus capacity has always been taboo in the socialist economy.

Thus it is obvious that the function of foreign trade is different in socialist and capitalist countries. In the developed capitalist economy exports are used to supplement insufficient domestic demand and thus plays a more important role. On the other hand imports are used to fulfil the needs of the national economy and are beneficial as they complement insufficient domestic supply, whereas exports compete with domestic demand for the indigeneous production under. Therefore, at present the main function of exports in a socialist economy is not to optimise capacity utilisation but to secure revenue to cover indispensable import requirements.

<u>Management of Payment System</u>- Socialist countries of Eastern Europe practice bilateralism in their international economic relations as a rule. Bilateralism stands for balancing of a country's exports and imports vis-a-vis individual trading

partners whereas multilateralism stands for balancing of a country's exports and imports globally: a bilateral system of trading in simple terms means that both the trade and payments are planned and balanced and there is no net outflow of exchange. In a bilateral form of relationship as practiced by SCEE's relations with countries especially developing countries are conducted under the principles of equality, most favoured nation clause and mutual benefits, irrespective of their socio-economic system and on the basis of country specific planning and negotiated preference. In the multilateral form of ttrading the economic relations are conducted on most favoured nation principles relying mainly on benefit accruing out of open market competitiveness and comparative advantage with no significant governmental control and in accordance with the principles of General Agreement on Tariff and Trade (GATT), International Monetary Fund (IMF), and the world bank which forbid balancing on bilateral basis as also bilateral trade preferences. In all the socialist countries of Eastern Europe, the foreign trade steering system through State monopoly and foreign exchange controls has been an outgrowth of the planned economy where imports and exports are included in the material balance.

Since the system called for isolation of foreign trade from domestic economy and its accounting system, comparative cost advantage was initially rejected as a meaningful concept in planned economies, when it finally acquired respectability, there were no adequate accounting instruments available. In the planned economies foreign trade like monetary relations- remained in the hands of the state monopoly over foreign trade and foreign exchange had institutionalised the isolation of domestic monetary system from foreign trade. The national currency had been reducedto an internal currency. There were no feed back mechanisms between world prices, exchange rates and domestic prices. Exchange are used only for internal clearing purpose and set arbitrarily by the state. The non convertible currencies of socialist countries of Eastern Europe could not be used for business transaction nor could be they served as a basis for developing effective credit relations. "Inconvertibility" therefore, becomes a part of the system and °Barter' becomes the intrinsic from of exchange. These were followed by intergovernmental trade agreements. These deals and agreements not only provided the grounds for getting acquinted with trade possiblities in new markets on a mutual basis but also provided instruments for overcoming difficulty of mobilising convertible currencies to service their foreign trade. Currencies of most of the developing countries were non-convertible as also those of socialist counties of Eastern Europe, it was important to evolve new payments mechanism. Thus in the fifties the clearing system was reorganised as a very useful instrument on trade and payments conducted by SCEE's with developinng countries envisaged payments through Clearing Annual Protocols were concluded within the framework of long term agreements, establishing deliveries of commodities and services of equal value without any payment in convertible currencies.[20]

There was, however, a perceptible movement towards multilateralisation of settlements in the seventies. The reason for this is that in the course of expanding trade relations, it was realised that the clearing system had in some cases, certain short comings - which caused distortion in mutual trade. These distortions were due to division of goods traded into the categories that is, whether exchangeable against hard or other currencies and the resulting balancing problems. Also, the composition of trade, if static,would set limits to trade.

Here it will be advantageous to mention the example of Rupee payment system of India with the socialist countries of Eastern Europe. The Rupee Payment system is a clearing arrangement in the Indo-SCEE trade and is the manifestation of this bilateral balanced planning between India and her SCEE's partners. In simple terms Indian Rupee stands for the °unit of account' for payments in these bilateral economic relations between India and the socialist countries of Eastern Europe. The unit could be any other currency since it is only a unit of account, but having it as Rupee confers some advantage in operation to Indian business community. One important feature of the system is that all types of credits are repayed within the system and hence the debator has the opportunity of discharging his debts directly and in a planned way. The success of the system depends not only upon the meticulousness of planning but also on performance, perhaps more so on later, because poor implementation can lead to structural difficulties in such a system. The institutional framework for planing are °trade plans' drawn up at inter governmental level under a trade and payments arrangement.

In addition to annual trade agreements, or plans, there are also long term trade agreements or plans under the long term, trade and payment management introduced as refinements of bilateralism.

In the terms of the long term Trade and payments Agreements with East European countries, the Central banks of each of the Est European countries keep an account with the Reserve Bank of India. Rupee funds are generated in these accounts through payments for imports made by India from these countries and exports from India paid for them from funds so generated. There is thus no outflow of rupees as such. While an overall balance of trade is thus maintained over a period the trade is not necesarily balanced at all points of time.

Council for Mutual Economic Assistance- After examining some of the important issues relating trade relations of socialist countries, we can now give a brief introduction of council for Mutual Economic Assistance (CMEA, henceforth) and can assess its performance. The CMEA is now forty years old. There were only six members to begin with - Bulgaria, Czechoslovakia, Hugary, Poland, Romania and USSR - all from Eastern Europe. They met in Moscow from January 5 to 8, 1949 and decided to set CMEA. Later German Democratic Republic also joined it.

Though the CMEA was conceived as a regional organisation of European socialist countries, it has now gone beyond the European continent. In 1962, Mangolia, an Asian country became its member. In 1972, the Republic of Cuba a country in the Western hemisphere was admitted, and in 1978 the socialist Republic of Vietnam, an Asian country joined the CMEA. The CMEA has thus steadily acquired universality and a global character. But in our study we have taken only USSR and six socialist countries of Eastern Europe namely Bulgaria, Czecholovakia, Hungary, Poland, Romania and German demoratic Republic. The reason is simple that though Cuba, Mangolia and Vitenam are the members of CMEA. Their trade with other developing countries are almost negligible. Moreover, the function and pattern of foreign trade of these countries are different with those that of SCEE's. Today the CMEA member countries, which have a total population of slightly more than 450 million people or 10% of the world population generate 25 % of the world's national income and produce 33% of the world's industrial output, including 22% of electricity, 31% of coal, 23% of its oil, 37% of natural gas, and 30% of iron ore. Compare these figures with the share of the member countries of the European Economic Community in the World' output in 1984: 15% in electricity generation, 17% in steel, 13% in mineral fertilizers, 8% in coal, 5% in oil and 2% of the world's patents for new technology and processes. The total National Income of the CMEA member countries grew by over nine times between 1950 and 1984 and their industrial production expanded fourteen fold.[21]

It was the cold war and the economic boycott that speeded up the creation of CMEA. The East Europen countries, at the time of the creation of CMEA like the Soviet Union, had just seen their countries devastated by the second world war. The international situation there was in no way conduvice to rapid recovery. The cold war had begun with an economic blockade imposed by the West against the socialist countries.

The Marshall Plan stipulation prohibited west European trade with the socialist countries. Agreements already concluded were cancelled under US Pressure and orders already made for were cancelled. The United States enforced an embargo on the export of certain goods to the Soviet Union and other socialist countries.

These actions led the socialist countries of Eastern Europe to form a council for Mutual Economic Assistance, with objectives like to exchange economic experience, to provide mutual technical assistance and to supply raw materials, food, machinery and equipment.

There are some unique characteristics of CMEA which distinguishes it from the other organisation like this, for example EEC (European Economic Community). One of the essential features of the CMEA is that unlike EEC, it has the equal representation of members. Representation in the EEC bodies is based on the size of the country, its population, its economic status and its monetary contribution to the EEC or in other words on the basis of a system of weightage. Thus Britain, West Germany, France and Italy have 10 votes each, Belgium, the Netherlands and Greece five each and Luxumburg, two votes.

The CMEA countries, too differs in size and population as also in economic development. They also differ in their contribution to the council's budget. But irrespective of these differences, each member is free to decide in what CMEA project it will participate, to what extent and on what terms.

For a proper explanation of the directions of trade and also of cooperation between CMEA and developing countries, it will be necessary to make a typology of the developing countries. As the South is not a homogeneous group. Apart from the obvious division in terms of continents, one can also distribute the partners of the Eastern countries, according to specific criteria. After classifying the developing countries properly only then it can be clear that why each country has its own strategy, stemming from political, geographical, and historical reasons for developing trade specifically with each group of Third World Partners, also the rason why trade is heavily concentrated among a very small no. of partners (the first five, i.e. Socialist countries of Eastern Europe, excluding U.S.S.R., usually accounting for 50-55 percent of total trade, which we will see later). Then what will be the proper classification of developing countries. The socialist countries do not readily accept the concept of °Third World' precisely because it introduces a °Third' way, different from the binary option between capitalism and socialism. The qualification of developing countries has been retained as imposed by the international practice, however, especially in Soviet literature, it is frequently coupled with political qualifications such as 'liberated countries' once labelled as °Socialist' (belonging to CMEA or not) developing countries are no longer considered as such in the classification of the socialist countries. This is why Mongolia, Vietnam and Cuba, CMEA members are not treated as developing countries neither are North Korea and laos (beginning from 1977 for latter).If added to the list, they would increase by a small but non negligible amount (1 to 25 points) the share of the "Third World" in the total trade of each of the °six' (Bulgaria, Romania, Czecholovakia, German Democratic Republic, Hungary, Poland). The increase would be quite significant for the USSR (Over 7 points on average).

Outside the socialist world, how should one classify the developing countries? Soviet literature is extensive on this topic. In the writings of the Soviet authors, two main criteria are used: The ideological political one and the economic one. The first distinguishes between the "countries with a socialist orientation". a concept that the beginning of the seventies replaced the older concept of "socialist path of development" and all the other countries. However, unlike in the dominant view held during the sixties and early seventies, it is not acknowledged that the "Socialist orientation" is chosen only by a few countries and that most of the developing world will remain in the capitalist orbit. Thus it is increasingly necessary to use another classification based upon the criteria of the development level, which is quite similar to the usual approaches taken in the western literature.

Such debate are less frequent in the works of East European authors, who seem more inclined to accept without discussion the usual categories found in western literature. They proposes a classification where the relations of production (i.e. the political criteria based upon the capitalist/socialist orientation) are dominent over the foces of production (i.e. the level of development). Thus a first division is made between the countries with a socialist orientation (hereafter called CSO's) and the countries with a capitalist orientation, they they themselves are divided into countries "favouring cooperation with the socialist countries (such as India, Mexico, etc.)" and countries "with a strong political and economic orientation toward advanced capitalist countries (Brazil, Argentina, Chile, Pakistan, Indonesia, Cameroon, Kenya etc.).

A second division is made according to the economic conditions for adequate relations between the developing countries and a small socialist country such as Czechoslovakia i.e. level of the industrial potential existence of raw materials potential.

These classification are interesting because they clearly show the dual rationale of trade and co-operation relation: the "socialist orientation" of a small no. of countries creates a sort of moral obligation to assist them, purely economic consideration imply a concentration of trade with those of the developing countries. We in our study used an overlapping classifiction system, which is based on "pollitical" and "developmental" criteria along with the geographical division retained in the U.N. classifications:

(i) Asia

(ii) Africa (Total and SubSaharian)

(iii) Latin and Central America

(iv) Countries with a socialist orientation CSO (this category is divided into the Subgroups).

(v) OPEC

(v) Newly Industrializing Countries (NIC's)

(vii) Arab and Islamic Countries

This classification does not take into account the scale factor, which undeline the particular features of trade with large countries such as Nigeria in Africa and especially India in Asia. Some of these groups need a further qualification. Group 4 (CSO) includes a subgroup(a) made of the "core" of these countries Angola, Mozambique and Ethiopia in Afrcia; South Yemen and Afghanistan in Asia. These five countries have all been admitted to the CMEA as observers between 1976 and 1979. They are all ruled by a marxist type party, with power structure organised along the people's democracy principle. By the end of the seventies, all of these countries implemented an agrarian reform program, developed a public sector in industry, started planning and signed bilateral treaties of friendship and cooperation with most of the socialist countries (but so have some other countries not belonging to this group). They are all in either a state of civil war, guerilla (Angola, Ethiopia, Mozambique) or armed conflicts at their borders (Angola, Mozambique, Yemen). Around this "nucleus", a second circle of CSO includes two Middle Eastern States (Iraq and Syria, notwithstanding its close political links with the USSR and Eastern Europe), Six (mainly tropical) African States (Algeria, Benin, Congo, Guinea, Madagascar, Tanzania), and Burma in South Eaast Asia. This group excludes some "has been", Somalia being the most recent case, whose "socialist orientation" was reversed in 1977. The "nucleus" itself may be enriched by new comers: The latest seems to be Nicaragua, although its ranking in the group remain controversial.

Group 6 includes they newly industrializing countries (NIC's) according to the most restrictive classification (the "four" Asian countries: South Korea, Taiwaan, Singapore, Hongkong, the "Three" Latin American: Argentina, Brazil, Mexico).

Group 7 is a composite group which includes the Middle East (without Israel) in the UN definition. Plus the Arabic countries, of North Africa (morocco, Algeria, Tunisia, Mauritania, Libya. Egypt, Sudan). This group has by far the biggest share in the total trade of the Third World with the socialist countries (USSR and Eastern Europe). It combines in it self a set of different and sometimes contradictory interests: the geographical closeness (for USSR, Romania, Bulgaria), strategic and political importance particularly in a time of lasting conflicts in the area, role of the OPEC members in this group as oil suppliers and as markets, existence of long term links through cooperation agreements, some of them dating as far back as the end of the fifties.

Notes

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3. See Lloyd G. Reynolds in Capitalism: Myths and Misunderstandings in Economic Impact, No, 1/25/, 1979, p.57-58

4. The Outflow of Resources from Developing Countries, Moscow: CMEA International Institute for Economic problems of the world socialist systems, January 1987, p.4-5

5. Ibid, p. 4

6. Ibid, p.5

7. Ibid, p.10

8. Ibid, p.14

9. Ibid, p.16

10. Ibid, p.26

11. Ibid, p.29

12. Ibid, p.45

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14. Ibid, p.5

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Chapter 2

Economic Relations of °Union of Soviet Socialist Republic' (U.S.S.R.) with less developed countries

Foreign trade plays a important role in the economy of Union of Soviet Socialist Republics. The major trading partners of the U.S.S.R. are the CMEA countries, followed by developed market economy countries. The importance of trade with developing countries is now ever expanding.

Table 2.1

Share of U.S.S.R. in total trade of Individual Socialist Countries of Eastern Europe (1980-86)

Geographical distribution	Exports 1980	1985	1986	Imports 1980	1985	1986
total trade-	76502	86775	97027	68534	82912	88857
of which developing countries (% of total)	24.9	26.3	26.7	21.1	23.1	19.9
Developed market economies (% of total)	32.6	25.8	19.4	35.6	28.0	25.5
Socialist countries of Eastern Europe (% of Total)	42.1	46.8	52.6	42.9	47.6	53.2

Source- UNCTAD Secretariat based on national and CMEA statistical publications ECE/GEAD CPE data file.

The soviet policy towards the developing countries aims at establishing stable, long term trade and economic relations with them on the basis of equality and mutual advantage. The guidelines for economic and social development of the U.S.S.R. in 1986-1990 and for the period upto year 2000 set the goal of consistently expanding cooperation with developing countries.

The main features of Soviet trade with developing countries are a rise in turn over, diversification of the trade pattern and commodity composition and an evergrowing no. of partner countries. During the period 1980-1986 imports by the U.S.S.R. from developing countries accounted on average for about 20% of its total imports and its exports to developing countries for about one fourth of the total exports.[1]

During the seventies, trade of the U.S.S.R. with the less developed countries followed a trend largely similar to its total trade, which is confirmed by the great stability of the share of the LDC's in total Soviet trade (in average 15% of total Soviet exports, and 11% of total imports, table 2.1). This contrasts with the trends observed for the six European countries, whose trade with the LDC's has definitly been more dynamic than over all trade over this period.[2] The faster growth of East South trade, in the case of six (leaving U.S.S.R.) mainly express the failure of Eastern Europe to increase its trade with the West, while Soviet Western trade was sustained in the seventies by the growing prices for fuels.

In the first part of the eighties, the downward trend of the growth rates on the export side was matched with an absolute decline on the import side, following an exceptional growth of Soviet imports achieved in 1981. In 1986 the slump in the imports sharply accelerated according to preliminary data for the first 9 months (by 23%). As a result, the share of the Third world in total Soviet trade reached 10% in 1986, its lowest figure since the beginning of the sixties.[3] The bias introduced by the fall in oil prices has to be accounted for, as the trends are calculated in current prices. In 1986 the Soviet exports to the third world grew at a high rate, especially on the side of the "residual" trade (explained later). Thus the decline in the overall share of the Third World in Soviet trade is entirely due to the drop in Soviet imports.

<u>Geographical Pattern of Soviet-LDC trade</u>-

Before investigating the geographical pattern of Soviet-South trade, it is important to mention the methodological problem of the °residual' in this trade. U.S.S.R.-third World statistics display an "external residual", which is the difference between the total exports of the Soviet Union to the third World, and the sum of the exports to individual countries. In 1985 this difference amounted to 45% of total export. The ratio has almost always remained slightly under 50% and has sometimes been greater.[4]

Thus in 1985, according to the foreign Trade Year book, the U.S.S.R. has been conducting trade with 54 developing countries, while it has declared to have commercial relations with 98 developing countries, not counting the DC's belonging to the socialist block. Among the 44 not mentioned, one has all the oceania partners (Samoa, Papuasia, Fiji, Tonga) several Asian countries (Oman, UAE the former has established official relations with U.S.S.R. just in 1985) and many African countries such as Benin, Gabou, Maritania, Niger, Senegal, Seychelles Islands, Toga, Uganda, Zaire, Zambia etc. The residual is supposed to consist mainly of arms exports although there is some controversy about the share and the nature of arms sales within that global figure. We shall revert to this point when discussing the commodity

Table 2.2

USSR-Third World trade: General trends 1970-85 (values in millions of dollars)

		1970	1975	1980	1983	1984	1985
Total trade (world)	Exp.	12800.0	33315.5	76449.5	91334.6	91120.0	86956.4
	Imp.	11731.6	36970.8	68522.5	80266.9	80025.9	82922.3
	Balance	1068.4	-3655.3	7927.0	11067.7	11094.1	4034.1
Total trade (third world)	Exp.	2039.6	4588.3	10580.9	14157.7	13386.8	11521.8
	Imp.	1272.9	4156.9	7847.4	9665.0	9297.1	9149.0
	Bal.	766.7	431.4	2733.5	4492.7	4089.7	-2372.8
in % of trade with world	Exp.	15.9	13.8	13.8	15.5	14.7	13.3
	Imp.	10.9	11.2	11.5	12.0	11.5	11.0
Trade with identified LDC's	Exp.	1241.4	2707.1	5798.7	7161.4	6557.7	6384.8
	Imp.	1241.3	4145.7	7680.2	9398.4	9182.7	9060.0
	Bal.	0.1	-1438.6	-1881.5	-2237.0	-2625.0	-2675.2
	Residual	798.2	1881.2	4782.2	6996.3	6829.1	5137.0
	% Resid.	39.1	41.0	45.2	49.4	51.0	44.6
In % of trade with Third world	Exp.	60.9	59.0	54.8	50.6	49.0	55.4
	Imp.	97.5	99.7	97.9	97.2	98.8	99.0

Note- Residual (difference between exports to the LDC's and exports to identified Third World countries).
Source- Data Bank CRIES of the Centre for international economics of socialist countries (Feb. 1987) reproduced from reports of J.E.C., U.S. Congress Vol.2. 1987.

distribution of Soviet-South trade. Another problem less discussed concerns the list of buyers. Obviously, those or not (or not mainly) the countries not identified by name. Should one divide the value of the residual (5137 million dollars in 1985) by the no. of missing countries, one should reach an average value of over 110 million dollars, which is quite impossible and surpasses the turnover of trade with many a partner identified in the official Yearbook. One then has to infer that most of the non-identified export has to be attributed to the main recipients of Soviet arms deliveries. But to which partner exactly? in which proportions? This is not clear especially taking into account that the deliveries to some countries may be paid for by others. In any case, the share of most of the Middle East countries in Soviet exports must be higher than what may be computed from published data on identified trade. (See table 2.2)

<u>The Regional structure of Trade</u>-

Taking into account the under estimation of some export flows just discussed, one may first of all characterize the overall geographical pattern of trade as follows:

a) A dominant and slightly increasing share of Asia (slightly over 50% in 1970, 58% in 1985, with a growing gap of the share of this area in Soviet exports to the third World (67% in 1985 the highest share being reached in 1979 with almost 78%) and its share in Soviet imports (in aveg. 50%, the highest figures appearing in the end seventies and reflecting increased (in value) oil imports from the Asian Middle East);

b) A decreasing share of Africa (over 40% in 1970, 25% in 1985).

c) With Latin America, a low share in Soviet exports, especially in the beginning and the end of the seventies, reaching its highest mark in 1975 and 1985 (7.5%) a much bigger and fluctuating share in soviet imports, due to the imports of grain mostly from Argentina, especially in selected years (1975-76, 1980-83).[5] (see Table 2.3)

Besides it, some specific groupings are considered below:

1. The group of the countries with a socialist orientation (CSO) is made up of two subgroups of unequal political significance and economic weight.

(i) The first one consists of the CSO having the states of observers within the CMEA, that is Angola (observer since 1976), Ethopia (1978), Mozambique, South Yemen (1979) and Afghanistan (1980). This group should include, from 1986 on, Nicaragua, which attended as an observer, the 40th session of the CMEA in June 1985. The export potential of all of these countries is for the time being low, even if resources do exist, due to the low level of extraction and processing of raw materials and to the present state of war and political instability, the U.S.S.R. is more involved in trade with this group than any other CMEA country except for the GDR. The share of the "CSO(1)" in total identified Soviet exports has been steadily growing, from a percentage of 11 in 1979 upto 22 in 1985, and even 28 in 1986 (36 when including Nicaragua) increased deliveries of arms and equipment, (in the framework of assistance as well as on commercial terms, mainly to Afghanistan, Nicaragua, Ethopia, and South Yemen) explain this expansion, while the share of the group in total Soviet imports has remained stable and low (under 5%) For this area strategic and aid considerations outstrip economic gains, especially taking into account that most of the Soviet surplus is not repaid and enters in the categories of clearing credit (Afghanistan), long term cooperation credit or short term (with possibilities of rescheduling) commercial credit.

Afghanistan is the only country in this group for which trade with the U.S.S.R. is significant (over 50% of export side and over 60% on the import side). For Ethopia, the U.S.S.R. accounts for 30% of the country's imports and less than 5% of its exports. Angola makes less than 4% of its trade with the Soviet Union. For Mozambique and South Yemen, the shares of the U.S.S.R. in their total trade are very low. Several Cooperation agreements have been signed between the CMEA as such and CSO(1) countries on the model of 1985 Mozambique-CMEA agreement: with Angola, Ethopia (oct 1986), Afghanistan (Jan 87).[6] A similar arrangment is underway for South Yemen.

(ii) As for the second group of CSO which are not observers within the CMEA but have privileged links with the CMEA countries, the Soviet definition is less unequivocal. The most frequently quoted countries are, in Africa: Algeria, Benin, Congo, Guinea (upto the death of Sekou Toure in 1984), Madagascar, Tanzania, in Asia: Burma, Iraq, Syria; in America: Nicaragua (1979-85).

The share of this group in Soviet exports is rather close in 1970 and in 1985 (16-17%) but with large variations in

Table 2.3

Geographical distribution of Soviet LDC trade (1970-85)
(in % of total trade with identified countries of the third world)

		1970	1975	1980	1984	1985
1. Asia	Exp.	52.1	62.8	73.8	66.7	66.9
	Imp.	50.5	45.4	49.5	52.1	50.9
2. Africa	Exp.	46.6	29.5	23.5	27.1	25.3
	Imp.	43.1	29.0	20.6	26.2	25.1
3. Latin America	Exp.	0.7	7.5	2.7	6.1	7.7
	Imp.	6.3	25.7	29.9	21.5	23.8
4. CSO(1)	Exp.	3.7	14.1	13.6	22.4	21.6
	Imp.	2.8	4.7	6.1	4.5	4.9
5. CSO(2)	Exp.	16.1	26.4	20.6	16.0	19.2
	Imp.	7.4	18.5	11.1	14.8	14.5
6. OPEC	Exp.	29.9	37.4	30.0	18.9	16.2
	Imp.	15.1	27.0	15.0	34.7	31.4
7. NIC's	Exp.	0.9	5.7	2.1	2.8	2.8
	Imp.	4.7	20.4	29.8	22.8	22.6
8. Middle East	Exp.	75.7	60.9	51.9	34.3	33.4
	Imp.	46.2	44.3	26.0	42.6	39.3

Source- Data Bank CRIES of the centre for international economics of socialist countries (Feb 1987) reproduced from report of J.E.C., U.S. Congress Vol.2. 1987.

between due to trade with Iraq, which is ahead of Algeria and Syria, one of the most important partners of the Soviet Union in the Third World.

The capacities of Iraq as exporter to the U.S.S.R. largely influence the total share of the group in Soviet imports, fluctuating between lows of 6-7% and highs of 17-20%.

2. Trade with OPEC countries (which comprise Iraq and Algeria from the previous group) accounts for a much smaller share in the total U.S.S.R.-LDC trade than in Eastern Europe-LDC trade. However this group probably absorbs the largest share of °unidentified' Soviet exports, and thus yields a +ve trade balance for the U.S.S.R., contrary to the data on trade with individual countries.

Trade with this group of countries has been based in the eighties upon arms of equipment sales, matched by oil purchases for reexport, which surged (in quantities) from 1983 on, that is since the beginning in the decline of oil prices.[7]

3. Trade with NIC's (newly industrializing countries) is negligible on the export side, and much greater on the import side, with large variations following those of Soviet purchases from Argentina. The following countries belong to this group: Argentina, Brazil, Mexico, in Latin America; South Korea, Hongkong, Singapore, Taiwan in Asia (of which only Singapore is mentioned in the Soviet statistics - there are probably some exchanges through traders with HongKong).[8] The prospects for increased trade with the Asian NIC's are probably doubtful. Should one include in this group the "potential" NIC's such as Malaysia, Thailand, and Indonesia, prospects might be more promising, due to the interest displayed towards the Pacific and East Asian countries since the beginning of the Gorbachev era, and evidenced through high level visits of Soviet officials to the three mentioned countries in 1985 and 1986. Though these countries are mainly suppliers of food and raw materials to the U.S.S.R., a

development of manufactured imports cannot be precluded, should the Soviet Union wish to emphasize its openness as compared to trade restrictions on the US side.[9]

4. Trade with SubSaharan Africa has a small share in Soviet - LDC trade. These relations offer a complex of rationale associated with the nature of the partners: the rationale of relations with a large oil exporting country, endowed with a large economic potential (Nigeria); the rationale of trade with suppliers of raw materials (Guinea) and tropical food products (Cameroon, Ivory Coast, Ghana); finally the specifics of trade with both types of CSO's. The Sov. Union seems to be willing to upgrade its trade with this area.

5. Finally, the last grouping includes the Arab and Islamic °Countries of North Africa and the Middle East. This group has in common a political and ideological feature, the Islamic faith, and for the Asian Middle East, a close distance to the Soviet Union. Though the share of this group has declined from the beginning of the seventies, from over 50% to around 40% of Soviet - LDC trade it represents a cluster of all the interests of the Soviet Union in the Third World. Such are:

a) Availability of oil (Algeria, Libya, Middle East)

b) Availability of raw materials (rock phosphate in Morocco, Tunisia, cotton in Egypt, Syria), food (citruse in Egypt and Morrocco, olive oil in Tunisia, dried fruit in Turkey) as well as of manufactured goods (Egypt, Syria, Turkey)

c) A socialist orientation, "confirmed" (South Yemen) or "declared" (Algeria, Syria, and Iraq).

Trade with main individual countries-

There is a very heavy concentration (though slightly declining since the seventies along with a certain diversification) in Soviet trade with the Third World. For the first part of the eighties the 10 major partners represent in average 75% of identified exports and 80% of Soviet imports, the 5 major partners, 55% (on exports) and 60% (on imports).

1. India has consistently been the most important partner in the eighties, as was Egypt in the early seventies. Trade flows underwent deep changes in their commodity composition since 1979, when oil exports of the U.S.S.R. first exceeded 3/4 of total identified exports. While previously, the U.S.S.R. had been a supplier of equipment and technology, the pattern of its trade evolved toward a North-South pattern ---- with the U.S.S.R. in the role of the "South". The sales of oil declined in value since 1983 along with an increased share of machinery. The Indian Soviet Cooperation agreements of May 1985 provided India with 1 billion roubles (1.2 billion dollars) in credits for industrial projects. The new credit line agreed upon in Nov. 1986 (1.5 billion roubles) is designed for expanding Soviet-built industrial plants (steel mills at Bhilai and Bokaro) and constructing new plants for alumina processing, hydropower stations,and oil exploration capacities. This will not only improve the commodity composition of trade, but will also help to maintain a balance in trade in a context of falling prices for oil. India is the sole significant supplier of equipment and advanced technology (computers, following such goods as

Rank Xerox copies), often manufactured in India by subsidiaries of Western multinationals.[10]

Table 2.4

Ranking of individual countries in Sov. trade with LDC's (1980-85)

	1980		1981		1984		1985	
	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp
India	1	2	1	2	1	1	1	1
Iraq	2	4	2	-	4	4	6	4
Iran	4	-	3	4	6	9	8	-
Libya	8	3	8	5	-	2	-	3
Argentina	-	1	-	1	-	3	-	2
Egypt	6	7	7	8	3	8	4	8
Syria	7	10	6	9	5	10	3	10
Turkey	3	-	5	-	-	-	9	-
Afghanistan	5	5	4	6	2	6	2	7
Nigeria	-	-	9	-	8	-	10	-
Algeria	-	-	-	-	10	-	-	9
Angola	-	-	-	-	9	-	-	-
Brazil	-	6	-	3	-	5	-	5
Ethopia	10	-	10	-	7	-	5	-
Malaysia	-	8	-	10	-	-	-	-
Nicaragua	-	-	-	-	-	-	7	-
Pakistan	9	-	-	-	-	-	-	-
Saudi Arabia	-	-	-	-	-	7	-	6
Thailand	-	9	-	7	-	-	-	-

Source- Data Bank CRIES of the centre for international economics of socialist countries (Feb 87) reproduced from report of J.E.C., U.S. congress Vol.2. 1987.

2. Iraq, Iran, Libya are the main partners of the U.S.S.R. among the Middle East oil exporting countries. Libya is probably the first partner in the area notwithstanding the low and declining amount of recorded Soviet exports; the level of Soviet oil purchases, strongly lifted since 1982 in Volume (with a drop in 1985 only, followed by an increase in 1986) is offset by military sales. Iraq has also been a major recipient of arms sales especially in the beginning of the Iraq/Iran war (1981/82).[11] Recent developments are bound to

boost Iran-Soviet trade, which had already began to recover in 1981 from the lows reached after the Islamic Revolution of 1979. In August 1986, both countries decided upon a revival of gas sales, which had totally stopped in 1980. From 1987 to 1990, these sales are most expected to increase from 1 billion cm. per year upto an average of 28 billion cm., which amounts to three times the quantity sold in 1979.

3. Argentina has been the main import partner of the U.S.S.R. in 1980 and 1981, when it replaced the United States and Western Europe as the main supplier of grain during the grain embargo. It receded to the second place in 1982, jumped again to the first in 1983. In 1984 and 1985 it was surpassed by India. However, the soviet imports remained high, largely over the mark of 4.5 million tons of grain annually set in the agreement which had been signed between both countries in 1980 (from 17.5 million tons in 1981, to 7 million in 1984 and 9 in 1985). But in 1986, notwithstanding the renewal of the grain agreement for another 5 years, trade fell to an historical six-year low.[12] The Soviet Union had accumulated a trade deficit of over 11 billion dollars in trade with Argentina for the period 1980-85, and the good harvest of 1986 allowed for a drastic reduction in grain imports.

4. Egypt, Syria and Turkey are regular partners of the Soviet Union. Once the main Soviet partner in the Third World, Egypt has loosened its links with the U.S.S.R. in the mid-seventies. The 1971 treaty of friendship and cooperation was abrogated in 1976, and debt repayments were suspended in 1977. However exchanges went on, under a clearing agreement

of 1974 which was not abolished.

Soviet Turkish trade is also expanded from 1987 on with the beginning of gas sales from the U.S.S.R. (less than a billion cm in 1987, upto 6 billion in 1990). This lead to a further diversification of Soviet Turkish trade. At present Turkish exports to the U.S.S.R. include cotton, citrus fruit, nuts, vegetable oil and a small share of industrial products which might increase rapidly, along with export of services such as the building of hotels on the Black Sea Coast in the Soviet Union.[13]

Syria may then well recede in ranking in the future. It is now the Middle East Country with the highest share of manufacturers in total sales to the U.S.S.R. (almost 2/5 in 1985, mostly textiles, drugs, and perfumery)

5. Afghanistan ranks high in Soviet exports mainly due to machinery and military equipment sales, along with Ethopia and Syria, for similar reasons.

6. Nigeria is the only important partner in SubSharan Africa, as an outlet for Soviet machinery exports, which largely outstrip cocoa imports. Malaysia sometimes appears on the import side closing the list of the 10 major partners, as a supplier of rubber, palm oil, and tin.[14]

COMMODITY COMPOSITION OF TRADE

The Soviet Union does not exactly follow a °North-South' pattern in its trade with the LDC's. Again, the evaluation is hampered by the problem of the "residual". To the °external' residual already mentioned, one has to add the internal one. For many Soviet partners, the share of °unidentified' Soviet exports to a given country may be quite important, up to 75% (this was the case for Soviet exports to Iraq in 1981). Again, the usual approach is to treat all the residual as arms sales.

<u>Soviet Exports</u>- Three items dominate Soviet exports to the LDC's. They are in order of importance.

a) The residual by commodities, which has grown in the 1980's to over one third of the total.

b) Machinery and equipment, slightly decreasing (22.5%) and

c) Fuel, slowly rising to 21%.

The U.S.S.R. seems then to have furthered the share of machinery and equipment in its exports to the LDC's (almost 59% of soviet exports, plus 4% of other manufactured goods) only by increasing the military equipment sales relative to the civilian ones. At the same time fuel remains a very important item, even more so in quantity. Once the residual is deducted, machinery accounts for 40-50% of total sales. Its share is highest in Africa, followed by OPEC countries (the latter have in addition the highest °internal' export residual). Thus, the share of machinery is related to the level of development of the partner countries, the more developed clients of the U.S.S.R. are reluctant to import equipment goods, which was evidenced by the 1986 negotiations of the U.S.S.R. with India and Argentina.

Machinery sales to the Third World accounted in 1985 for slightly over 20% of total equipment sales, which was almost

Table 2.5

Trade of the USSR with the developing countries, total, commodity composition.
(in % of total trade)

	1970	1975	1980	1981	1982	1983	1984
EXPORTS							
Food+Beverages & Tobacco	4.1	5.3	2.1	1.4	1.3	3.2	3.3
Crude materials	3.8	4.8	2.5	4.4	1.7	7.8	9.3
Oil, Veg.Oil							
Mineral fuels, Lubricants	3.5	10.5	15.5	16.5	15.7	17.9	17.5
Chemicals	1.1	3.0	1.8	3.0	2.0	2.4	2.6
Manu. goods	10.1	5.6	2.5	2.0	1.9	4.1	11.4
Machinary & Transport equip.	32.8	24.2	20.6	18.3	18.0	19.4	20.1
Residual	44.6	46.6	55.0	54.4	59.4	45.2	35.7
	1970	1975	1980	1981	1982	1983	1984
IMPORTS							
Food+Beverage & Tobacco	33.5	39.6	48.3	56.7	46.7	49.9	41.5
Crude materials	38.2	20.6	19.5	21.4	22.8	20.0	22.5
Mineral fuels, lublicants	2.9	19.2	12.8	6.0	8.5	9.2	9.1
Chemicals	1.9	3.2	2.9	1.4	2.0	1.9	9.1
Manu.goods	22.9	16.7	15.0	13.1	17.6	17.1	19.7
Mach. & trans. equipment	.2	.8	.7	.8	1.2	1.1	3.5
Residual	.4	0	.8	.6	1.0	1.4	1.6

Source "Monthly buletin of statistics August 1976, May 1979, May 1982, May 1984, May 1986.

the same share as for the communist Third World Countries that is Cuba, Vietnam, Mongolia, North Korea, Laos, Kampuchiea (now Combodia). A large part of it is exported under cooperation agreements between 50 and 40%. For some countries this share is above average, namely for Nigeria (when almost all machinery exports are covered by cooperation agreements in 1981-85), Algeria, South Yemen, Iran, Pakistan, Turkey. Such exports are made on concessionary terms and repaid in traditional export goods of the recipient. The format of machinery exports is undergoing changes similar to those of Western exports to the Soviet Union, for similar reasons.

The reduction in the import potential of many Soviet clients, especially oil exporters, leads to a decrease of turnkey plants sales, and to a parallel increase in machinery exports designed for modernization, revamping of objects built with Soviet participation, often with a large resource to the technology of the partner.[15]

The third item in the Soviet exports, again excluding the "residual" is fuels (mainly oil). Its share began to grow since 1974 and was over $1/3$ of Soviet identified exports in 1980-83, falling under 30% after 1984. Fuels represent over 50% of sales to Asia (outside middle East), 60 to 70% of sales to Latin America. The reorientation of Soviet exports following the drop in oil prices in 1986, which has been largely commented on in its implications for Soviet Western trade, also affected trade with the Third World. We have mentioned the adjustments realized in Indo-Soviet trade, and

Table 2.6

Trade of the USSR with different groups of third world, commodity composition
(in % of total trades)

			0+1	2+4	3	5	6+8	7	Residual
Asia	1970	Exp.	4.2	2.1	4.6	3.0	23.2	55.7	7.2
		Imp.	23.3	38.4	3.6	1.4	3.0	.2	0
	1975	Exp.	21.6	4.0	22.2	10.8	7.4	24.6	9.4
		Imp.	29.8	27.2	6.9	3.5	30.3	2.3	0
	1980	Exp.	7.4	3.2	53.9	3.7	3.3	27.2	1.3
		Imp.	31.2	23.9	8.5	5.0	27.8	1.8	1.8
	1984	Exp.	1.5	1.3	50.4	3.9	2.3	29.1	11.5
		Imp.	22.1	26.4	11.6	1.8	28.6	6.9	2.7
Africa	1970	Exp.	9.1	8.6	1.6	12.6	12.6	43.1	15.7
		Imp	40.9	38.6	2.1	1.4	16.8	-	.2
	1975	Exp.	7.5	12.5	20.6	.9	14.3	30.1	14.1
		Imp.	44.5	23.3	1.4	5.1	25.4	.4	0
	1980	Exp.	3.4	8.6	11.7	2.8	3.0	51.5	19.0
		Imp.	73.8	10.5	-	3.7	11.4	-	.6
	1984	Exp.	3.3	5.5	21.1	2.1	1.9	58.6	9.5
		Imp.	58.0	19.4	0	7.0	13.6	-	1.9

Contd.

			0+1	2+4	3	5	6+8	7	Res.
Latin America	1970	Exp.	-	-	-	11.1	33.3	44.4	11.1
		Imp.	46.3	44.8	-	-	7.5	-	1.4
	1975	Exp.	.5	2.0	61.8	2.0	2.5	30.2	1.4
		Imp.	75.9	18.3	-	.2	5.6	.5	0
	1980	Exp.	-	6.9	-	20.0	1.5	66.9	4.6
		Imp.	74.8	20.4	.6	.5	3.6	0	.1
	1984	Exp.	7.9	0	61.1	4.6	.9	19.4	6.0
		Imp.	74.6	20.6	.1	.2	4.4	-	.1
OPEC countries	1970	Exp.	7.8	7.0	-	.5	13.7	63.2	7.8
		Imp.	55.0	26.0	3.6	4.1	11.2	0	.1
	1975	Exp.	.1	9.5	1.1	2.9	9.1	55.8	21.5
		Imp.	26.0	6.0	65.9	.4	1.8	-	0
	1980	Exp.	0	4.9	.3	1.3	5.6	49.1	38.8
		Imp.	11.2	11.2	74.3	-	3.2	-	0
	1984	Exp.	.5	.7	.2	2.1	3.3	72.2	21.1
		Imp.	21.3	21.3	53.5	-	1.8	-	2.1

Source- Monthly bulletin of statistics "August 1976, May 1979, May 1982, May 1984, May 1986.

Note- 0-Food and live animals, 1-Beverages and tobacco, 2-Crude materials, in edible, excluding fuels, 3-Mineral fuels, lubricants, 4-Animal/veg. oils and fats, 5-Chemicals, 6-Manufactured good by chief material, 7-Machinery and transport equipment, 8-Miscellaneous manufactured goods.

sought for in the relations with Argentina. The Soviet Union appears very eager to substitute manufactured goods sales for oil supplies. The LDC's are better markets for Soviet equipment than the developed world, especially if such sales are included in clearing agreements (the case of India) or offered against compensation in kind to countries retaining a structural surplus on the U.S.S.R.. The second case is that of Latin American countries.

The new regulations introduced in the field of foreign trade in 1986 & 1987 may be applied here.

<u>The pattern of Soviet imports</u>:- Like Soviet exports, Soviet imports from the Third World do not follow the usual North South pattern. True, the share of primary goods is dominant, but the share of manufactures is steadily increasing. Within the group of primary goods, food and nonfuel raw materials account for most of the import trade, while oil imports have a much smaller share in total purchases than is the case in North South or even East European - South trade.

1. The share of food and agricultural products has always been high in soviet imports from the Third World, but it suddenly increased in 1980, due to the succession of bad harvest in the U.S.S.R. since 1979 and the grain embargo of 1980-81 monitored by the United States. [16]

In 1986, the grain trade with Argentina declined dramatically. The U.S.S.R. bought less then 1 million tons of grains, considerably lagging behind the implementation of the grain trade agreement newed in the beginning of 1986.

Table 2.7

Soviet imports of Coffee & Tea from Third World Suppliers (1980-85)

Coffee	1980	1981	1982	1983	1984	1985
Total Imports	48253	41000	47857	37160	48178	56729
From						
India	23600	23950	31000	27000	20650	35850
Ethopia	10000	-	-	-	5000	5000
Brazil	3507	4002	7000	-	6505	-
Colombia	1999	-	2000	2000	3995	-
Mexico	500	500	1000	-	2500	-
Nicaragoa	1000	3000	3000	3000	-	-
Peru	500	500	-	-	1300	3592
Indonesia	-	-	-	-	2522	3000
Angola	5111	2970	-	-	-	-
Madagascar	1002	4054	-	-	-	510
Total from identified suppliers	47219	38976	44000	32000	42472	47952
Share in overall Imports	97.9	95.1	91.9	86.1	88.2	84.5
Tea						
Total Imports	70878	84521	73391	76741	94599	108076
India	59746	77000	61421	61932	75575	833353
Sri Lanka	3700	2003	2999	3784	10082	7444
Bangladesh	510	725	2392	1853	1033	2296
Total from Identified suppliers	63956	79728	66812	67569	86690	93093
Share in overall Imports	90.2	94.3	91.0	88.0	91.7	86.1

Source- "Monthly bulletin of statistics" May 1982, May, 1984.

Over all food imports amounted in average to one half of Soviet imports from the Third World in the period 1980-85, but with a share declining since 1984 to about one-fifths.

Within the food imports, the share of grain was again on average about one half over the same period. Should the recovery in grain output last in the Soviet Union, there might be a large drop in total imports from the Third World. The decrease in grain purchases already accounted for about three quarters of the 22% drop in the import trade with the LDC's for the first nine months of 1986. Africa, together with Latin America, is a major source of food supplies other than grain. Over the years 1982-85, two facts are striking, along with a general rising trend in food imports mentioned, there are very strong fluctuations in imports from individual countries. This confirms the finding of Thomas Wolf according to which the Soviet Union is a rather unstable partner as compared to western imports of primary products, and this instability seems to be increasing over time, at least for food commodities.[17]

There are two main reasons for the prominent role of food in Soviet imports from LDC's.

Firstly, there are the domestic difficulties hampering Soviet Union's agricultural production. Lack of incentives, losses, poor infrastructure, scarcity of spare parts, inadequacy of the agricultural machinery seem to plague this sector in USSR. The second reason is the necessity to obtain products which cannot be cultivated at home (eg. tropical commodities).

2. Turning to the group "ores, metals, crude fertilizers", the Soviet Union is a major producer and exporter of most of the minerals extracted in the world. Thus its bebaviour in

this field is two fold. For a range of commodities (especially non-ferrous metals), the Soviet Union acts erratically making strategic purchases the amount of which is widely fluctuating from one year to the other, and cannot be traced through Soviet statistics as such data have disappeared from the foreign trade year books since the mid-seventies. The difficulty is increased by the fact that many of these purchases are made on the open market. For a fewer number of minerals, the Soviet Union has developed a long time supply policy. This applies mainly to bauxite and phosphate rock, but also, increasingly, to some strategic metals.

The USSR depends on imports for about 45-50% of its needs for bauxite. Its first move in this field has been an agreements concluded with Guinea in 1969. According to this agreements, the Soviet Union was to develop bauxite extraction in Kindia, Ninty percent of the production was to be supplied to the USSR from 1974 upto the year 2005, of which 55% would be provided as a compensation for the supply of equipment and the construction of a railway from the mine to the cast, and the rest supplied on commercial terms. The capacity of mine has been extended and since 1986 the annual output amounts to 3 million tons (the third of the total production in the country, which accounts for one quarter of world reserves).

Unlike bauxite, phosphate rock is abundant in the Soviet Union. The costs of extraction are growing due to the unfavourable location of the fields.[18] The USSR is becoming a net importer of this mineral. It is not quite clear whether the agreement with Morocco signed in 1978 for developing the phosphate field of Meskala is being implemented. It provided the supplies of equipments & a credit of 2 billion dollars, partly in hard currencies, to be repaid through supplies of phosphate for 30 years. Though the implementation of the project seems to have lagged behind schedule, the sales of Moroccan superphosphate have strongly increased in value in 1985. In December 1986, the USSR concluded an agreement with Syria for annual supplies of phosphate rock which should amount to 6 million tons in 2000.

Since the Soviet Union is seeking regular sources of supply for some essential minerals, it may be surprising that there are no Soviet-Third World mixed companies in the field of raw materials.[19]

3. Fuel imports have increased in value during the period under consideration. They consist of petrol mostly with the exception of Afghan gas piped to the USSR. The rationale is that for both the USSR and its CMEA partners, imports are necessary for reexportation. Main suppliers include Iraq, Libya, Iran, Algeria but also, Syria, Saudi Arabia.

It is remarkable that the rise in fuel imports (which is even higher in terms of quantity) shows a strong correlation with the crash in world oil prices. This is one of the basic ways in which East West relations influence Southern exports to the East. Fuel is an important source of convertible currency for the USSR.

Table 2.8

Soviet oil purchases from the Third World (1980-85)
(in thousand tons)

	1980	1981	1982	1983	1984	1985
identified suppliers						
Iraq	1800	-	80	2400	4000	3360
Libya	1680	1770	5840	6150	6800	5300
Iran	-	2200	810	2390	1260	700
Saudi Arabia	-	-	-	1050	1800	2300
Venezula	40	-	-	-	-	-
Total	3520	3970	6730	11990	14300	13300

Source - Bahri in Lavigne ed, 1986 p. 202 (based from various sources including UN data world energy statistics)

In times of falling world oil prices, the East European countries need to channel growing quantities of petrol to convertible currency markets in order to stabilize exports or at least to minimize the losses in earnings.

Even the USSR, one of the leading producers and exporters in the world, is suffering from this constraint. While it is committed to shipping oil to CMEA & some developing countries, its real possibilties of stepping up home production are not very great. Growing costs of extraction related to increasingly costly investments in remote areas, aging of machinery, waste, relatively high energy content per unit of output are to be weighted against the Soviet Union importing growing amounts of petrol from the LDC's and this also explain why the USSR is moving fast into the latter direction. New cooperation agreements were signed recently with Iraq, Syria, PDR, Yemen and Angola for petrol exploration & production, plus a protocol to further develop the Afghan natural gas industry, and barter agreement with Iran, in which Iranian crude is going to be exchanged against Soviet refinery productions and technical assistance.

The Soviet Union has been importing oil from OPEC countries in significant quantities since 1973. After a slump in 1980-82, a market recovery accured in 1983-85.[20] The Soviet imports of middle East oil for reexport strongly increased in 1986.[21] Is this going to last? Different issues are involved here. The political support of the Soviet Union to the OPEC policy for the restriction of sales, which was promised at the end of 1986, should limit such reexport, at least for a time. The recovery in arms sales, already noticeable in 1986, should have the reverse effect, as oil is taken in compensation for these sales. The overall restructuring of Soviet foreign trade which is under way, should limit the role of oil as a hard currency earner for the USSR, but in the long run only. No clear pattern emerges from these contradictory developments.

4. As far as manufactured good trade is concerned the LDC's have been pressing the SCEE's (USSR included) to export and their imports of Third World manufactures since the fourth UNCTAD in 1976. The Soviet Union is certainly in a better position than the other CMEA countries in this respect. True, the share of manufactured goods steadily declined in its imports in the seventies & early eighties, but it began to grow in 1982 and has reached in 1984 the 25% mark. Should the share of food & of oil decline in the Soviet imports, the proportion of manufactures could increase automatically, even

at a lower level of trade.

Several reasons should point toward a greater share of manufactures in the near future.

(i) The relative increase in trade with exporters of such goods (India, Pakistan, Turkey, Syria, Egypt) along with an activation of import trade with Latin American NIC's.

(ii) The commitment of the Soviet planners and policy makers to an increase in the supplies of consumer goods on the Soviet market.

(iii) The new role of the tariff system in the Soviet Union. The USSR is to reactive its tariff, along with the reform of the foreign trade system and in view of its application to GATT. The goods imported from the LDC's were exempted from taxes since 1965, but the tariff itself did not play any role as the domestic prices were not linked with the external prices. If the tariff is reactivated, and if the importing entities foreign trade organizations or enterprises - are to feel the burden of it, then their might be a real incentive to increase import from the developing counties rather than from the industrialized countries because it will save money.

Soviet Union's economic cooperation with LDC's-

The Soviet Union's economic relations with developing countries in the last few decades have been enriched with a whole range of raw and productive forms. They have considerably extended the possibilties for cooperation. Among these new forms the economic and technical assistance to newly free Asian, African and Latin American countries has been playing a leading role. the wide range of services rendered includes preliminary and technical and economic substantiation of the need for construction of projects, civil engineering surveying and elaboration of design plans and specifications. These are followed by delievery of construction and manufacturing equipment and materials which are not available in the given country. There are also some special spheres of cooperation, such as geological prospecting, training of skilled personnel and qualified specialists from among local nationals drawing up of general patterns for development and distribution of productive forces, elaboration of comprehensive programmes for the development of separate economic sectors and regions, transfer of experience in planning and management and provision of other consultation services.[22]

<u>USSR's cooperation with LDC's in Investments</u>- Cooperation in the field of investment is a much practised and effective form of economic relations with developing countries. In many cases it will take 15-20 or even more years to complete projects covered by intergovernmental agreements on economic and technical cooperation. But one distinct feature is that Soviet cooperation is not limited to the period of construction, but covers the period of operation too.

The Soviet Union signed its first agreement on economic and technical assistance with the Mangolian People's Republic and the Democratic people's republic of Korea way back in 1949. In 1955 a Soviet India agreement was signed concerning the construction of the Bhilai Steel Works. Then followed the

Soviet agreement on economic and technical assistance with Yemen, Indonesia, Burma, Kampuchea, Syria, Egypt, Guniea, Ghana, and Cuba. By 1986 such intergovernmental agreements were signed with a total of 72 countries. At present the USSR cooperates in the sphere of investment with 12 OPEC countries 25 least developed countries (according to UN classification) and approximately two dozen developing countries of Socialist orientation.[23] In terms of value the scope of the Soviet Union's commitments with respect to economic & technical assistance to developing countries increased in a nearly seven to two proportion in the 1970's and in a three to two proportion in the first half of the 1980's. As the beginning of 1983 the USSR helped build 3,300 odd projects (see table). Out of this number 2103 projects are already in operation. Over 70% of the Soviet aid, in terms of value, is accounted for by the construction of industries and power stations.

(i) As far as Soviet Union is concerned, metallurgy is a leading sector in its economic aid. In terms of value it accounts for nearly a quarter of all outlays for industry. The Soviet Union has helped build steel-making plants with a complete cycle (i.e. pig iron, steel-rolled stocks) in India, Algeria, Turkey, Iran, Pak. Egypt and Korea (DPR).

(ii) The USSR has aided India, Egypt, Turkey and the Democratic Republic of Korea in the development of their aluminium industries. In 1985 their plants produced 340,000 tons of aluminium. They thus accounted for 30 odd percent of the total output of all the Asian and African developing countries.

(iii) In 1985 the power stations built to Soviet designes and outfitted with Soviet equipment generated 69 million megawatt hours of electricity. The USSR is helping accomplish large scale programmes for the construction of power generating projects in India, Vietnam, Bangladesh, Syria, Algeria, Angola and Cuba.

(iv) The USSR has effectively helped India and Syria create petroleum producing industries of their own, and Afghanistan a natural gas producing industry. Soviet specialists are rendering material aid to Iraq, African, Libya, Vietnam and many other countries in prospecting for oil and gas and in developing extraction thereof.

(v) The Soviet Union is extending its aid in the development of coal mining industries. When the coal mines which are under construction in India, Iran, the Democratic Republic of Korea, Mongolia, Vietnam, Mozambique and other countries have been completed, they will turn out close to 120 million tons a year.

(vi) The USSR has helped build a no. of big chemical engineering industries. Among the biggest are nitrogenous fertiliser plants in Afghanistan, Syria, the Democratic People's Republic of Korean and Cuba, a superphosphate acidulation plant in Vietnam, sulphuric acid works in Turkey and Vietnam and a type works in Sri Lanka.

(vii) The USSR is also assisting in the building of light and food industries. The purpose is to help meet the demands of the population for foodstuffs and consumer goods, cut imports of these products and in some cases to pave the way for exports of farm products after processing of the 360 factories of light and food industries envisaged by the argeements, 278 were put into operation by 1986. Among these are cotton and wood spinning mills, carpet marketing and garment making factories.[24]

Table 2.9

Number of enterprises and other projects built with Soviet assistance in developing countries in the post war period, currently under construction and planned to be built in various economic sectors (as of January 1, 1986)

	Under agreements	No. of ent. put into operation
Total no. of enterprises including ent.in the sectors:	3308	2108
Industry	1322	921
power generation	248	169
oil refining	22	11
coal mining	61	28
ferrous metallurgy	32	28
non-ferrous metallurgy	46	20
chemical & petrochemical indus.	37	20
eng. & metal working factories	192	152
building materials industry	95	52
light industries	55	32
food industries	307	246
floor & peeling mills	92	84
agriculture	614	345
trans. & comm. facilities	379	266
housing construction	86	63
public edu., health & sports	698	378

Source- "Soviet Union and developing countries" economic cooperation principle and practice, Leon Zevin and Tadeush Teorovich, Allied publishers 1988.

Transfer of Technologies and Assistance in Training Local Personnel- The USSR regards transfer of technology as an effective form of international cooperation assisting the newly free countries in the development of their national economies. Projects built in cooperation with the USSR are outfitted with advanced Soviet equipment and employ the latest Soviet technologies.[25] In addition, the Soviet Union renders all round aid in training skilled national personnel.

(i) In 1981 the Soviet construction and assembly organisations completed the Erdenet copper - molybdenum concentration plant in Mongolia Soviet drilling rigs and oilmen are cooking successfully in West Kurna, Iraq, Pakistan. In countries like Afghanistan, Vietnam, Bangladesh, Pakistan Soviet made power generating equipment accounts for a sizable share of their installed capacities and output. In the 1980's USSR helped expand the output of the Bhilai plant to four million tons of steel a year, modernise the plant and improve performance by employing the latest achievements in technology.[26]

(ii) Assistance in the establishment of national design organisation is a specific form of transfer of technologies to other countries. MECON, an Indian design organisation is a case in point.

(iii) Soviet geology has won tremendous international prestige. In 1981-85 Soviet geological prospectors achieved remarkable successes in Algeria, Afghanistan, Vietnam, India, Madagascar, Morocco and Mongolia.

(iv) While rendering economic and technical aid to the developing countries, the Soviet Union has also assisted them in training skilled national personnel on a mass scale. In 1976-1980 in all forms of training close to 500,000 citizens of developing countries were involved, and in 1981-1985 about 600,000. By 1986 the USSR had helped train a total of 1.8 million people. In some countries (eg. Vietnam, Cuba, Algeria, Afghanistan, Burma, Guinea, India, Mali and Ethopia) the higher and specialised secondary schools built with Soviet assistance have become the main centres for training engineers and technicians.

Trade Balances and Gains from Trade-

Is the Soviet Union deriving important benefits from its trade with the Third World?

A first and obvious approach would be related to the terms of trade issue. Is the Soviet Union following the same pattern as the developed market economies in the trade with the LDC's? Is it discriminating against those countries (selling at higher prices than to other partners, buying at lower prices)? This approach is very deceptive because of statistical limits to an exhaustive knowledge of Soviet import and export prices. In addition there is a strong link between the settlement regime and the price. The USSR still conducts a significant part of its foreign trade with the DC's under the regime of clearing agreements (about 40% in the first part of the eighties). Apart from the official clearing agreements (with Afghanistan, Bangladesh, Egypt, India, Iran, Pakistan, Syria), there is a wide range of barter deals on an adhoc basis, with swaps between specific goods (in particular, in oil and arms trade). Finally, the mechanism of cooperation is deeply interwoven with trade, in all the cases when a long-term credit in kind is granted in the form of machinery supplied, to be repaid by deliveries of traditional export goods or commodities originating from the project financed through credit. In this case, the import price paid by the Soviet Union is linked not only with the (generally unknown) price for machinery, but also with other conditions such as the interest rate, the amount of technical assistance, etc.

Finally, one has to take into account the balances in trade, overall and according to the payment regimes.

The Soviet Union has a permanent surplus in its overall trade with the developing world. It is always (with only two exceptions since 1970, that is in 1978 and 1979) in deficit with its identified pastners, because of the huge residual in its exports. The residual itself leads to a hard currency revenue which amounts to atleast 60% of its total sum, and even more according to some experts. In its clearing trade the Soviet Union has a surplus (which amounted in 1985 to at least 600 million dollars). This surplus logically has to be deducted from the hard currency gains of the same year as it does not entail hard currency proceeds. According to such a computation, the Soviet Union appears to be in deficit with the Third World (in hard currency) by a small amount in 1985 though its overall surplus amounts to 2.4 billion dollars. Significantly, in 1986 the deficit with identified partners was strongly cut, while the surplus in clearing was reduced to less than 100 million dollars. This again confirms one of the basic interests more than ever of the Soviet Union in the Third World.

To conclude since Gorbachev's accession to power, no dramatic shifts have occured in the overall trends in Soviet - LDC trade, either in the geopolitical distribution of Soviet trade partners or in the commodity composition of this trade.[27] However, two significant facts emerge from the events of 1986.

The first one is the rising importance of the countries with a socialist orientation in the Soviet visible (i.e. identified by partners) exports. For the first time, these countries accounted for more than a half of Soviet identified sales to the Third World in 1986. This would at first glance challenge the assumption according to which USSR is looking for gains, more than for influence, in its trade with LDC's. It seemes however, that both aims are increasingly compatible, or atleast pursued simultaneously.

The second is a striving towards hard currency surpluses. In a first step it has been achieved through direct quantitative measures (pushing exports in volume, especially for arms and machinery, reducing imports with the very lucky occurance of a good import-saving harvest in the USSR).

It seems, however, that the Soviet Union is seeking a deeper restructuring of its trade with LDC's with more value added goods on the export side (which would mean a lasting reduction in the share of oil), and more import-substitution upgrading manufactures purchases from the Third World. But as in Soviet trade with the developed world, the new trends orginating from the hard currency constraint which emerged in 1986, and from the subsequent reforms of the foreign trade mechanism, are still to be confirmed.

Notes

1. See Manual of Trading with Eastern Europe, N Y, Geneva, 1987, p.21

2. See Prospects in Trade with the Socialist Countries of Eastern Europe: U.S.S.R. - Policies, Development and Institutional Framework, TD/B/918, 26 Aug. 1982, p.14

3. See Trends in Trade and Economic Cooperation amongst Countries having Different Economic and Social Systems, UNCTAD/ST/TSC/9, 5 Nov. 1986, p.28

4. See Marie Lavigne in Soviet Trade with LDC's, Washington D.C.: J.E.C. of Congress of the United States, Vol.2, 1986, p.510

5. Ibid, p.511

6. The Soviet Union in a Changing Global Economic Setting, the Prospects for Trade Oriented Growth, study by Prof. I.D. Ivanov, UNCTAD/ST/TSC/4, 1987, p.8

7. Lavigne, n.4, p.513

8. Ibid, p.515

9. Prospects for Trade and Cooperation of Countries having Different Economic Systems, UNCTAD/ST/TSC/6, p.51

10. In this section I have relied heavily on the report sponsored by the Indian Council for Research on International Economic Relations (ICRIER), which was published as a book: Suresh Kumar (ed.): Indo-CMEA Economic Relations, Ashish Publication, New Delhi, 1987.

11. UNCTAD /ST/TSC/9, n.3, P.37

12. Ibid, p.52

13. Ibid, p.48

14. Prospects for Trade and Eco. Cooperation between Nigeria and Socialist Countries of Eastern Europe, TD/B/748, 3 Aug. 1979 p.16

15. See E. Ossadtchouk in Technological Cooperation between Soviet Union and Developing Countries, Commerce Exteriur (URSS), 1987, p.24-29

16. Trade and Economic Cooperation between the Socialist Countries of Eastern Europe and the Developing Countries in the Field of Food and Agriculture, TD/B/1033/Rev.1, 25 April, 1985, p.7

17. Thomas A.Wolf in An Empirical Analysis in Soviet Economic Relations with Developing Countries, Soviet Economy, Vol.1, No.3, July-Sept. 1985, p.232-260

18. TD/B/1033/Rev.1, n.16, p.18

19. Carl McMillan in Multinationals from the Second World, Growth of Investments by Soviet and East European State Enterprises, London: MacMillan, 1987, p.220

20. Bahri in Lavigne (ed.), n.4, p.202

21. Jan Vanous in Soviet and East European Foreign Trade in the 70's: A Quantitative Assessment, East European Eco. Assessment, Washington D.C.: JEC, Cong. of U.S., Vol.II, 1987, p.687

22. See Leon Zevin and T. Teorovich in Soviet Union and - Developing Countries, Economic Cooperation - Principle and Practice. New Delhi: Allied Publications, 1988.

23. U.S.S.R.: New Management Mechanism in Foreign Economic Relations, UNCTAD/ST/TSC/10, 2nd Oct. 1987. p.8

24. Leon Zevin, n.22, p.24

25. Also, according to Padma Desai, prices the Soviet Union charges for its technologies are reasonable, because it does not step up the prices of separate items in concealed form, Padma Desai in Power, Passions and Purpose, Prospects for North-South Negotiations, London: MIT Press, 1985, p.128

26. Mehrotra in this regard said, "Completion of Bhilai Iron and Steel Works actually marked the end of Western monopoly on the delivery of technologies and complete sets of factory equipment", O.P. Mehrotra in Soviet Interests in the Third World, 1985, p.234

27. UNCTAD/ST/TSC/4, n.6, p.24

Chapter 3

Economic Relations of Socialist Countries of Eastern Europe (excluding U.S.S.R) with less developed countries

Bulgaria

Bulgaria has a limited internal market and also suffers from a certain scarcity of natural resources. It therefore, depends on foreign trade for developing its economy. Expansion of production far in excess of domestic demand means that a large no. of products are designed for exports. One significant feature is that the rate of growth in national income and industrial production. Thus for the period 1970-82, exports grew annually 14.9% and imports by 14%.

In absolute terms, exports went up from foreign exchange 10.38 billion dollars in 1980 to 14.01 million dollars in 1986. Similarly, imports have grown from 9660 million dollars in 1980 to 14910 million dollars in 1986.[1]

Trade with developing countries-

Bulgaria maintains active trade and economic relations with more than 70 developing countries in Africa, Asia and Latin America. The share of developing countries in Bulgarian exports increased from 10% in 1970 to 13.7% in 1986, but their share in imports was only 8.7% in 1986, having increased from 7.8% in 1970. In absolute terms, Bulgarian exports to developing countries have increased from 200 million dollars in 1970 to 2246 million dollars in 1982, Imports have grown from 320 million dollars in 1970 to 943 million dollars in 1982 (see table 3.2)

Its cross-system exports to developing partners in 1980 were 3.7 times of imports from them and in 1984 they were 2.5 times when that proportion came down to 2.1 times in 1983, it

Table 3.1

Share of Bulgaria in the total trade of individual socialist countries of Eastern Europe (1980-86)

(% share in total exp./imp.)

	EXPORT						IMPORT					
	1980	1982	1983	1984	1985	1986	1980	1982	1983	1984	1985	1986
1.World (in million of $US)	10388	11440	12137	12842	13310	14126	9666	11540	12290	12673	13568	14933
2.DMEC's	16.8	12.2	11.5	10.7	10.1	6.2	17.4	16.9	14.2	14.0	15.4	15.7
3.Developing Countries	16.3	19.6	14.9	16.6	15.9	13.7	6.7	8.6	8.9	9.2	10.8	8.7
4.China	.3	.2	.3	.2	.2	.2	.4	.2	.2	.1	.1	.2
5.SCEE's	66.6	68.0	73.3	72.4	73.8	79.6	75.5	71.3	76.7	76.7	73.7	75.3

Source- UNCTAD Secretariat based on national and CMEA statistical publication ECE/GEAD CPE data file.

was just overtaken by Czchoslovakia at 2.2 times (1.8 times in 1984), but most European CMEA members generate surpluses at much lower rates in cross-system exchange. Thus in 1983 (1984 in parentheness) exports in relation to imports from developing countries were 1.5 (1.2) times in the GDR, 1.1 (1.1) times in Hungary, 2.0 (1.8) times in Poland, 1.0 (1.1) times in Romania and 1.5 (1.5) times in USSR. Since 1980 developing countries account on average for about 16% of Bulgarian export (13.7 in 1986) and 8.7% of its imports (8.7% in 1986).[2]

<u>Main Trading Patners</u>-

Bulgaria is able to effect settlements in the above mentioned manner because all its top ranking markets among developing countries are oil exporters. In order of 1983 Bulgarian experts, they are the Libyan Arab Jamhiriya, Iraq, the Islamic Republic of Iran, Algeria and Nigeria. Bulgaria does not publish its oil imports, but of those five oil economies only the Libyan Arab Jamhiriya and Nigeria figure among the top 15 from which Bulgaria imports. Much of the imports from the Libyan Arab Jamahiriya are of oil, but lot of cocoa is bought from Nigeria. Hence, although the oil terms of trade do not much affect bilateral trade with the country's leading developing partners, the later's reduced purchasing power could hamper future exchanges.

If we divide the main group of partners in trade of Bulgaria in our above mentioned group, then we see that the group of Asian Countries and the OPEC countries stand as the largest and most significant group with which Bulgaria has

Table 3.2

Trade Between The Individual European CMEA Countries and the developing countries

Bulgaria

	1970	1975	1976	1977	1978	1979	1980	1981	1982
1. Exports	129.9	504.3	496.1	661.6	834.5	998.5	1387.5	1815.9	1982.2
Imports	86.2	222.3	250.0	288.5	268.0	296.1	377.1	484.8	712.7
Balance	43.7	282.0	246.1	373.1	399.0	702.4	1010.4	1331.1	1269.5
2. Exports	117.9	502.1	494.2	659.7	832.9	997.8	1394.8	1817.2	1979.6
Imports	50.1	220.5	246.2	275.3	256.2	290.5	367.6	473.2	701.8
Balance	67.8	281.6	242.0	384.4	576.7	707.3	1027.3	1344.0	1277.8
3. Exports	6.5	10.7	9.2	10.4	11.2	11.3	13.4	17.5	17.2
Imports	4.7	4.1	4.4	4.5	3.5	3.5	3.9	4.6	6.1
4. Exports	90.7	99.6	99.6	99.7	99.8	99.9	100.0	100.0	99.9
Imports	58.1	99.2	98.5	95.4	95.6	98.1	97.5	97.6	98.5
5. Exports	100.0	388.0	381.0	509.0	642.0	768.0	1068.0	1398.0	1525.0
Imports	100.0	258.0	289.0	334.0	311.0	343.0	437.0	562.0	826.0

Czechoslovakia

	1970	1975	1976	1977	1978	1979	1980	1981	1982
1. Exports	341.9	719.0	681.7	840.5	1241.5	1024.5	1285.8	1376.1	1315.9
Imports	226.9	504.5	507.4	731.9	606.9	706.0	828.2	740.8	683.0
Balance	115.7	215.4	174.3	108.6	634.6	318.3	457.6	635.3	632.9
2. Exports	323.3	682.6	659.0	802.3	935.5	961.5	1254.6	1350.5	1296.9
Imports	220.7	475.9	498.2	710.4	589.1	686.0	818.6	728.2	668.0
Balance	102.6	207.7	160.8	91.9	346.4	275.5	436.2	622.3	628.9
3. Exports	9.0	8.6	7.5	8.2	10.1	7.8	8.6	9.3	8.4
Imports	6.1	5.6	5.2	6.5	4.8	4.9	5.5	5.1	4.4
4. Exports	94.6	94.8	96.7	95.5	75.4	93.8	97.6	98.1	98.6
Imports	97.5	94.3	98.2	97.1	97.1	97.2	98.8	98.3	97.8
5. Exports	100.0	210.0	199.0	246.0	363.0	300.0	376.0	402.0	385.0
Imports	100.0	223.0	224.0	324.0	268.0	312.0	366.0	327.0	302.0

(Contd.)

		1970	1975	1976	1977	1978	1979	1980	1981	1982
German Democratic Republic										
1.	Exports	192.2	443.8	499.7	571.3	745.3	842.8	1245.3	1362.9	1810.2
	Imports	189.1	451.6	633.3	724.1	832.8	766.0	1183.1	763.9	972.0
	Balance	3.1	-7.8	-133.6	-152.8	-78.5	76.8	62.2	599.0	832.2
3.	Exports	4.2	4.4	4.4	4.8	5.7	5.7	7.2	7.0	8.0
	Imports	3.9	4.0	4.8	5.0	5.4	4.8	6.2	3.8	4.6
4.	Exports	90.6	95.5	92.0	94.0	85.2	90.5	85.7	85.8	88.0
	Imports	–	–	–	–	–	–	–	–	–
5.	Exports	100.0	231.0	260.0	297.0	393.0	438.0	648.0	720.0	942.0
	Imports	100.0	239.0	334.0	383.0	440.0	405.0	626.0	410.0	514.0
Hungary										
1.	Exports	136.7	363.9	392.3	500.7	595.8	805.0	849.6	1017.7	1138.7
	Imports	177.4	498.2	523.3	646.8	698.2	705.4	847.2	755.2	904.7
	Balance	-40.8	-134.3	-130.9	-146.1	-102.4	99.6	2.4	262.5	234.0
2.	Exports	141.0	374.0	418.0	516.3	594.3	783.0	936.8	1046.9	1147.5
	Imports	183.6	508.3	538.3	671.5	692.8	731.3	906.2	772.5	909.7
	Balance	-42.6	-134.2	-120.3	-155.2	-98.5	51.7	30.6	274.4	237.8
3.	Exports	5.9	5.9	8.0	8.6	9.3	10.9	11.0	11.7	12.9
	Imports	7.1	6.9	9.5	9.9	9.2	8.1	9.4	8.3	10.2
4.	Exports	103.0	102.8	106.5	103.1	99.8	97.3	98.3	102.9	100.7
	Imports	103.0	102.0	102.9	103.8	99.2	103.7	104.6	102.3	100.6
5.	Exports	100.0	266.0	287.0	366.0	435.0	589.0	696.0	744.0	832.0
	Imports	100.0	281.0	295.0	365.0	393.0	399.0	488.0	426.0	510.0

(Contd.)

Poland

	1970	1975	1976	1977	1978	1979	1980	1981	1982
1. Exports	274.7	879.2	913.9	1040.8	1030.9	1292.2	1644.2	1537.6	1545.2
Imports	204.2	609.4	588.4	698.9	812.4	1371.5	1785.4	946.2	596.3
Balance	70.6	269.8	325.5	341.9	218.5	-79.3	-141.3	591.4	948.9
2. Exports	260.5	783.7	854.2	894.6	870.2	1079.8	1311.8	1173.7	1231.0
Imports	196.0	591.7	585.2	674.7	806.1	1342.5	1747.9	923.9	589.9
Balance	64.5	192.0	269.0	219.9	64.1	-262.7	-436.1	249.8	641.1
3. Exports	7.7	8.6	8.3	8.5	7.7	7.9	9.7	11.6	13.8
Imports	5.7	4.9	4.2	4.8	5.3	7.8	9.4	6.1	5.8
4. Exports	94.8	89.1	93.5	85.9	84.4	83.6	79.8	77.3	79.7
Imports	96.0	97.1	99.5	96.5	99.3	97.9	97.9	97.6	98.9
5. Exports	100.0	320.0	333.0	379.0	375.0	470.0	598.0	560.0	562.0
Imports	100.0	298.0	288.0	342.0	398.0	672.0	874.0	463.0	292.0

Source- Data Bank CRIES, of the Centre for International Economics of Socialist Countries (Nov. 1983 ed.) reproduced from JEC report, U.S. Congress Vol.2, 1986.

Note- For each country

1 - Total trade with developing countries (million U.S.$)

2 - Trade with identified countries in the Third World (million U.S.$)

3 - Share of total trade with developing countries in total trade with the world (in %)

4 - Share of trade with identified developing countries in total trade with LDC's (in %)

5 - Index of growth (1970 = 100) by total trade by exports and imports.

the trade relations.

Table 3.3

Main groups of partners in total trade of Bulgaria with third world (shares in %)

		1970	1975	1981
Asia	Exp.	57	58	56
	Imp.	41	40	68
Latin America	Exp.	1	1	1
	Imp.	3	19	10
Africa (total)	Exp.	41	42	43
	Imp.	57	41	22
Africa (tropical)	Exp.	4	10	4
	Imp.	11	2	6
CSO(1)	Exp.	0	0	2
	Imp.	0	0	1
CSO(2)	Exp.	24	22	29
	Imp.	23	15	9
OPEC	Exp.	31	65	68
	Imp.	20	20	29
Nic's	Exp.	0	1	1
	Imp.	3	22	7
Middle East	Exp.	69	77	83
	Imp.	66	55	58

Source: UNCTAD secreteriat based on national and CMEA statistical publication, ECE/ GEAD CPE data file.

The reason is that the main item of Bulgarian imports is oil (as we have already seen).

The one significant fact emerges from the trade that in the last two decade there has been a considerable shift of Bulgarian trade policy towards its partrners. The most significant is that a considerable hike in Bulgarian Exports to OPEC countries with respect to their imports, in the mid 70's. Also we can see that during the mid seventies trade between Bulgaria and newly industralised nations had gone up.

Table 3.4

Rauking of Individual Developing Countries in Export and Import Trade of Eastern Europe with the Third World 1970,75,81

	Bulgaria						Czechoslovakia						G.D.R.					Hungary						Poland					
	1970		1975		1981		1970		1975		1981		1970		1975		1981	1970		1975		1981		1970		1975		1981	
	E.	I.	E.	I.	E.	I.	E.	I.	E.	I.	E.	I.	E.	I.	E.	I.	E.+I.	E.	I.	E.	I.	E.	I.	E.	I.	E.	I.	E.	I.
Egypt	1	1	7	1	–	9	1	1	3	1	4	7	1	1	2	2	8	1	3	5	6	10	–	2	3	10	4	7	8
India	2	2	6	2	3	5	2	2	4	3	5	2	2	2	3	4	4	2	1	3	3	7	4	1	1	1	2	9	3
Iran	9	–	3	–	4	2	6	7	6	4	6	3	–	7	8	10	3	4	5	2	4	2	3	–	10	4	–	5	2
Iraq	3	–	2	7	2	–	3	–	1	8	2	–	5	–	1	1	1	10	–	1	1	1	–	3	–	5	–	2	–
Libya	7	–	1	8	1	1	–	–	2	–	1	–	–	–	–	–	5	–	–	7	–	3	–	9	–	2	–	1	–
Algeria	6	3	–	4	6	–	–	–	–	–	10	–	7	–	6	–	10	–	–	–	5	4	–	–	–	7	5	6	–
Brazil	–	–	–	3	–	–	9	4	8	2	–	1	3	3	5	3	2	6	2	–	2	–	1	4	4	3	3	3	1
Morocco	–	8	–	5	–	3	–	10	–	6	–	–	–	10	–	8	–	–	–	–	–	–	–	7	7	9	1	8	4
Syria	8	4	10	–	7	8	4	–	5	–	3	8	4	8	4	6	6	8	9	–	8	6	–	–	–	–	–	–	–
Turkey	–	5	5	6	5	4	8	6	10	–	–	10	6	6	7	7	–	3	4	4	–	–	8	–	–	8	–	4	6
Argentina	–	9	–	10	–	–	–	8	–	9	–	4	–	–	–	–	–	–	7	–	–	–	–	5	8	–	6	–	5
Colombia	–	–	–	–	–	–	–	–	–	–	–	9	8	5	–	9	–	–	–	–	–	–	–	8	5	–	–	–	7

Contd.

	Bulgaria						Czechoslovakia						G.D.R.					Hungary						Poland					
	1970		1975		1981		1970		1975		1981		1970		1975		1981	1970		1975		1981		1970		1975		1981	
	E.	I.	E.	I.	E.	I.	E.	I.	E.	I.	E.	I.	E.	I.	E.	I.	E.+I.	E.	I.	E.	I.	E.	I.	E.	I.	E.	I.	E.	I.
Ecuador	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	10	–	10	–	9	10	–	–	–	–	–
Indonesia	–	–	8	–	–	–	–	–	–	–	–	6	–	–	–	–	–	–	–	–	–	–	6	–	–	6	–	–	–
Ivory Coast			–	–	–	10	–	–	–	–	–	–	–	–	–	–	–	–		–	–	–	5	–	–	–	–	–	–
Jordan	–	–	–	–	10	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	9
Kuwait	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	8	–	8	–	–	–	–	–	–	–
Lebanon	5	10	9	–	8	–	7	–	7	–	7	–	9	9	9	–	–	5	–	6	–	9	–	–	–	–	–	–	–
Malayasia		–	–	–	–	7	–	5	–	5	–	5	–	–	–	–	–	–	8	–	9	–	7	–	–	–	10	–	–
Nigeria	10	6	4	–	–	–	–	–	–	–	–	–	–	–	–	–	–	9	–	–	–	5	–	–	–	–	–	–	–
Pakistan	4	–	–	–	9	–	10	–	–	–	–	–	–	–	–	–	–	7	–	–	–	–	3	6	2	–	8	10	–
Peru	–	–	–	–	–	6	5	–	–	–	–	–	–	4	–	5	–	–	6	–	–	–	–	–	6	–	7	–	–
Saudi Arabia		–	–	–	–	–	–	3	–	7	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Singapore	–	–	–	9	–	–	–	–	–	–	9	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Tunisia	–	7	–	–	–	–	–	–	–	10	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–

Source – Data Bank CRIES of the Centre for International Economics of Socialist Countries (Nov. 1983 ed.) reproduced from JEC report, U.S. Congress Vol. 2 1986.
Note– E. – Export, I. – Import.

The main trading partners (individual countries) of Bulgaria are Libya, Iraq, India, Iran, Turkey, Algeria, Syria and Lebanon. In this matter also we can see that Libya which had the seventh position among the countries having trade relations with Bulgaria in 1970, now becomes the most important partner of it with largest turnover and on the other hand, Egypt which enjoyed the distinction of main trading partner of Bulgaria in 1970 slips down to ninth position in 1981.(see table 3.4)

__Commodity Composition of trade__-

The major items exported to developing countries are: complete plants (food, textiles, Tobacco), metal cutting machines, power equipment electric forklift trucks, tractors, transport and construction equipment, chemicals and pharmuaceutical products and various consumer goods and food stuffs. Bulgarian imports from developing countries include traditional items such as tea, coffee, cocoa, Spices, soya beans, industrial raw materials and fuels, iron ore, raw phosphate, crude oil, rubber and jute and more recently, industrial products such as electrical equipments cable and telex machinary, fertilizers, tyres, construction equipment, clothing, knitware and handicrafts.[3]

__Balance of Payment Position__-

Bulgaria's policy towards countries with different economic and social system and in particular to developing countries is to expand foreign trade on a mutually advantageous and balanced basis. As a result its trade balance with many developing countries is in equilibrium. At the same time, some developing countries such as Brazil, Tunisia and Peru maintain surpluses. Other developing countries have deficits in their trade with Bulgaria, which are mainly due to imports of capital equipments on the basis of long term credits, the repayment of which is deferred for long periods.

Bulgaria's foreign trade plans donot include targets concerning or influencing the choice of trading partners withein a given type of currency. The decision in this respect is taken by the economic organization of purely commercial consideration, proceeding from the world market situation and the exchange rates of the curency involved, involved, so that the most competitive offer may be selected. The foreign trade plan does not create import demand by itself, nor does it constitute an import restriction, since it is a reflection of the requirements of the country's national economy against the backgroud of the payments resources available.

Economic Cooperation-

Along with expansion of foreign trade. Various forms of mutual economic cooperation have developed in recent years. Bulgaria has concluded diversified industrial technical, scientific and cultural cooperation agreements with more than 75 developing countries in Asia, Africa and Latin America. Thus for example in Africa, Bulgaria has cooperation agreements among other countries, Algeria in the establishment of textile plants and a taunning factory, Egypt in the production of ferro silicon and the establishment of a tract assembly plant, the Libyan Arab Jamahiriya in oil and oil prospecting, housing and the construction of ports & hospitals, Mozambique in irrigation system and water management, Nigeria in textiles, the Sudan in food processing. The United Republic of Tanzania in agro industrial projects, irrigation poultry farms and tanneries, Tunisia in Phosphate Mines, mines for non ferrous metals, ore dressing plants and hydro-installations. The latest agreement concluded between Bulgaria and the Congo envisages cooperation between the two countries in agriculture and industries including the timber and the wood working industry, and electrification. The projects to be designed and built with Bulgaria's cooperation include plants for producing electrical equipment, water pumps, ceramic articles and cold storage plants.[4]

The fertilizer extension of economic cooperation between Bulgaria and developing countries is expected to improve prospects for stable and balanced trade. The developing countries, for their part, could utilize the potential of the Bulgarian market by improving the quality and terms of delivery and establishing direct contacts with Bulgarian trading enterprises.

HUNGARY

Not being endowed with many natural resources, Hungary has to depend to large extent on international trade. it maintains trade relations with 144 countries. Over the period 1970-83 the share of exports in national income has increased from 26.3% to 50.2%. The share of imports in national income has risen even more from 21.3% in 1970 to 49% in 1982, and 50% to 1985.

Total trade turnover increased from 17.7 billion dollars in 1980 to 18.8 billion in 1986. Exports increased from 8.6 billion dollars to 9.2 billion and imports from 9.1 billions dollars to 9.6 billion.[5]

__Trade with developing countries__-

Developing countries have emerged as important trading partners of Hungary. As a result, their share in total trade turnover increased to about 15% in 1982, compared with 9.4% in 1970. in 1986 it was 11%.[6]

At present Hungary has trade and economic cooperation agreements with 86 developing countries. Intergovernmental agreements with these countries proved a framework for economic, commercial, financial and technical cooperation and facilitate the activities of companies by fostering favourable conditions for establishing direct contacts to promote cooperation and business deals. Some of the intergovrnmental agreements are trade and payments agreements and others are agreements on economic, technical and scientific cooperation.

Table 3.5

Share of Hungary in the total trade of individual socialist counteies of Eastern Europe (1980-86)

(% share in total exp./imp.)

	EXPORT						IMPORT					
	1980	1982	1983	1984	1985	1986	1980	1982	1983	1984	1985	1986
1.World (in million of $US)	8609	8858	8768	8616	8472	9179	9188	8867	8554	8128	8183	9594
2.DMEC's	35.1	30.0	33.0	35.3	30.7	31.8	40.2	36.5	34.4	34.8	38.5	37.8
3.LDC's	13.9	17.4	17.0	15.5	16.2	12.3	10.8	8.4	10.1	11.6	12.6	9.5
4.China	.6	.4	.5	.8	.8	.7	.7	1.7	1.5	1.2	1.2	1.1
5.SCEE's	50.4	52.2	49.4	48.4	52.3	54.1	52.9	58.5	59.2	57.5	53.9	50.9

Source- UNCTAD secretariat based on national and CMEA statistical publication ECE/GEAD CPE data File.

Hungarian imports from developing countries rose by 70% in current prices between 1980 & 1984, deflated by a price increment of 8.8% the volume index rose by 56%. The corresponding export indices were 72% in current prices and 42% in volume (a price rise of 21%). The 11% improvement in its terms of trade doubtless promoted that expansion, which by 1984 brought developing partners trade to 12% both for imports and for exports.[7]

Inclusion of socialist economies among developing countries brings the 1984 share to 16% for both imports & exports, in 1979 Hungary had taken just under 11% of its import from such partners and had exported to them almost 14%. Over those five years its exports surplus fell from $US 127 million to $ US47 million. (see Table 3.2)

Hungary is in favour of the multilateral system of payments and has shifted away from the clearing system of payments with developing countries. The clearing system is now in operation with only four developing countries.

<u>Main partners</u>-

Individing the Hungary's trading partners into our above mentioned groups, we see that the Middle East, OPEC and Asian countries forms the major group of countries having trade relations with Hungary. Thus in 1981 the percentage share of Hungary's Exports to middle East is 75%, to OPEC countries 62% and Asian countries to 63%, where as on the import side the respective shares are 29%, 26% and 42% .One important point to note down here is that Hungarian imports from Latin American countries and newly industrialized countries are far more than their share of exports namely 41% as against 6% in Latin American and 36% as against 5% in NIC's.

Table 3.6

Main groups of partners in total trade of Hungary with the Third World (Shares in %)

		1970	1975	1981
Asia	Exp.	58	66	63
	Imp.	44	49	42
Latin America	Exp.	9	12	6
	Imp.	31	26	41
Africa	Exp.	33	22	31
	Imp.	25	24	17
CSO(1)	Exp.	0	0	2
	Imp.	0	0	0
CSO(2)	Exp.	10	28	33
	Imp.	6	32	5
OPEC	Exp.	25	54	62
	Imp.	17	38	26
Middle East	Exp.	61	74	75
	Imp.	39	46	29
NIC's	Exp.	7	5	5
	Imp.	19	18	36

Source- Data Bank CRIES, of the centre for international economics of socialist countries (Nov.1983 ed.) reproduced from report of J.E.C., US congress Vol.2 (1986)

Among Hungary's 15 principle developing country partner in 1981, Brazil and Iraq ranked first for import and export respectively. Where as Hungarian exporters were distributed among a wide range of countries (see Table 3.4), there were only four big import partners. Among non-socialist developing countries, the Arab countries account for 60% of Hungarian exports and 40% of imports, previously most went to Asian Arab states, but about an equal volume of exports now goes to North Africa. The Islamic Republic of Iran and Iraq rank after Yugoslavia (in 1983) as Hungary's biggest markets among developing countries, they appear as fourth & fifth as Hungarian Suppliers. They have been exchanging places with each other in Hungarian trade since the Iranian revolution of 1979, and for both Hungarian exports of equipment for electricity generation have played a leading role in development. Their dependence on oil for export earning makes future large contracts uncertain. Much the same can be said of Algeria and the Libyan Arab Jamahiriya, with each of which Hungary buys oil and sells food stuffs and equipments. All four countries depended on oil revenue for financing their state enterprises and infra structure contracts.

Commodity Composition-

The commodity pattern of Hungarian imports from developing countries has changed and diversified in the last decade, and now includes new groups of products. From the early 1970's, the purchase of energy sources has become stable, though in varying quantities and values, and this has modified the previous structure of imports. Individual consumer goods have become regular items in imports, and represents growing amounts. Developing countries provide about 6 to 7% of Hungarian imports of consumer goods. Consumer goods from developing countries have become important factor in the Hungarian domestic market, for instance in the following items: Knitted under and overwears (from Bangladesh, Egypt, India, Iran, Lebanon, Pakistan, Singapore, SriLanka, the Syrian Arab Republic), leather clothing articles (Egypt, India, Pakistan, Uruguay), garments sports wear, other ready to wear clothing articles (Argentina, Brazil, India, Lebanon, Mexico, Pakistan, Peru, Singapore, the Syrian Arab Republic, Tunisia, Uruguay) carpets and rugs (Afghanistan, Bangladesh, Egypt, Iran, Iraq, Lebanon, Pakistan), Footwear (Brazil, Egypt, Iran, Mexico, Uruguay,) Telecommunication articles (Singapore), electrical apparatus (Brazil, India), tool, steel products (Brazil, India, Iran) Cosmetics house hold chemicals (Argentina, Brazil, India, Iran, Mexico, the Syrian Arab Republic) different sports goods (India, Iran) writing materials, office supplies (Argentina, Brazil, Egypt, India, Iran, Iraq, Pakistan, the Syrian Arab Republic, Uruguaey) and spare parts for road vehicles (Brazil, India, Iran) Hungarian imports also comprised large volumes of

Table 3.7

Structure of the foreign trade of Hungary with developing Countries

(in % shares)

	EXPORTS					IMPORTS				
	1980	1981	1982	1983	1984	1980	1981	1982	1983	1984
Food items	14.0	16.7	13.6	15.3	19.1	37.6	40.1	26.4	21.1	24.2
Agri. raw materials	2.1	2.5	2.2	2.2	2.5	11.2	8.7	6.9	8.2	7.9
Ores & Metals	14.6	12.4	11.4	9.3	8.9	7.6	6.6	3.7	3.0	4.3
Fuels	3.3	2.5	1.6	3.5	2.8	19.9	12.7	36.7	45.0	36.0
Manu. goods	65.2	65.1	69.8	66.1	62.2	23.7	31.8	26.3	22.7	27.6

Source-Report of UNCTAD Secretarial, TD/B/1103/Add.1 based on national statistics of Hungary.

different preserved foods, canned products, soil amelioration tools, fertilizers, basic materials for the pharmaceutical industry. Machines instruments and vehicles have also been purchased, although their proportion is not significant.[8]

Changes occuring in the structure of Hungarian exports indicate that the share of modern products representing a higher stage of processing is increasing.

In the past period, the deliveries of machines to developing countries have expanded. The major markets are Arab countries of the Near East, but supply to other countries are also increasing. Asian countries bought 65 to 70 percent of machines and complete equipements exported to developing countries. In the group of African countries Algeria, Egypt, the Libyan Arab Jamahiriya and Nigeria were major buyers and among Latin American countries Peru & Brazil bought significant quantities.

Among the Hungarian machine deliveries, the most notable ones have been the following: thermal and hydroelectric power stations (to Egypt, India & Lebanon) energy producing and distribution equipment, transformers, transformer stations (Bangladesh, Egypt, India, Kuwait and Pakistan) telecommunication, micro wave equipments, tele comunication materials and apparatus, telephone exchanges (Brazil, India, Indonesia, Iran, Iraq, Jorden, Lebanon, Morocco and the Syrian Arab Republic), glass factories, construction industry equipments, brick factories (Ghana, Guinea, Iraq & Syria) means of transport including buses locomotives, push boats (Bangladesh, India, Pakistan and no. of Latin American countries) food processing machines, complete food industry machine lines (Ethopia, Iran, Iraq and the Syrian Arab

Republic), mining equipment and installation, mine development equipment, oil drilling equipment, ore enrichment equipments (Bolivia, India, Iraq and Morocco) metallurgical equipments iron ore dressing and alumina factory equipments (India), equipments for pharmaceutical factory and packing of pharmacecutical products (Ghana, Nigeria).[9]

POLAND

The Polish economy despite its quite plentiful natural resources and large domestic market, is dependent to a large extent on foreign trade for economic growth as well as for its economic stability. The index of export and import volume (1970-100) increased to 197 and 168 respectively in 1983.

The crisis through which Poland passed in the early 1980's is partly exhibited in a calamitous drop in exports, which was evenly distributed between CMEA partners (1982 in current prices was 62.1% of 1980) and developed market economies (a fall to 62.6%). Sales kept up better to the softer markets of the developing countries (though the share of manufacturers in such exports fell) but imports from tham were the hardest hit (1982 was 41.7% of 1980). Import cuts from developed market economies were nevertheless severe (1982 was 47% of 1980, but 1983 was still lower at 44.9%) Due to the enormity of the convertible curency debt which compelled rescheduling in 1981, the aggregate of those liabilities was not reduced in the ensuring five years.[10]

Trade with developing countries-

Poland's partners in developing economies were also in changed circumstances after the debt crisis of 1982. Its 15 leading partners of 1983 differ from a similar list for 1980 by including from four states not ranked in 1980 (Angola, Cuba, Nigeria and the Syrian Arab Republic) and excluding from which did get into the 1980 list (Colombia, Lebanon, Liberia and Malaysia). Developing countries have emerged as important trading partners for Poland. During the period

table 3.8

Share of Poland in the total trade of individual socialist countries of Eastern Europe (1980-86)

(% share in total exp./imp.)

	EXPORT						IMPORT					
	1980	1982	1983	1984	1985	1986	1980	1982	1983	1984	1985	1986
1.World (in millon of $US)	17022	11215	11578	11758	11489	12064	19118	10245	10596	10646	10799	11171
2.DMEC's	35.0	33.3	33.7	35.8	35.9	34.6	35.5	31.3	29.2	29.6	32.3	33.4
3.LDC's	11.9	16.4	14.8	14.8	14.5	11.9	10.8	8.4	10.1	11.6	12.6	10.2
4.China	.6	.9	.8	.9	.9	.9	.7	1.7	1.5	1.2	1.2	1.1
5.SCEE'S	52.4	49.3	50.6	48.4	48.7	46.2	52.9	58.5	59.2	57.5	53.9	51.8

Source- UNCTAD secretariat based on national and CMEA Statistical publications ECE/GAED CPE data file.

1980-86, their share in Polish exports increased from 11.9% to 15.4%, while imports stabilised at about 10%.[11] (see Table 3.2)

Commodity Composition of trade-

As regards the composition of Poland's trade with developing countries, primary products coustitute a very important proportion of imports, but in recent years the share of sami-manufacturers and manufactured products has been steadily increasing and in 1984 it stood at 27.6%. In polish exports to developing countries in 1984, the share of manufactures, machine and transport equipment amounted to 62%. The present trend towards gradually increasing mutual trade can be expected to continue. Poland currently maintains trade relations with the majority of developing countries in Africa, Asia and Latin America.[12] The volume of trade with individual developing countries depends on a wide variety of factors, including transport facilities, the availability of specific commodities requested by trading partners, and knowledge of each other's markets. Poland's major exports to developing countries are engineering products, particularly complete industrial plants and equipment for power generating station for coal and other forms of mining, and for the chemical and food industries. These exports are usually included in intergovernmental agreements on industrial cooperation which, in addition, provide for technical assistance, transfer of technology and other services by Poland. The growing emphasis on international cooperation, which is a constant feature of Polish relations with developing countries, and the recent growth of joint ventures with developing countries, will provide further stimulus to Polish exports of such products.[13] Changes are also expected in the structure of industrial production creating conditions for increased cooperation with developing countries by concentrating on products most needed by them (engineering goods, chemicals etc.) and simultaneously slowing down investment in sectors that enjoy more favourable production conditions in the developing countries (eg. light industry)

Table 3.9

Structure of foreign trade of Poland with developing countries (1980-84)

(in% shares)

	EXPORTS					IMPORTS				
	1980	1981	1982	1983	1984	1980	1981	1982	1983	1984
Food items	5.0	3.1	3.8	5.7	6.7	29.3	38.7	34.8	11.6	17.7
Agri raw materials	2.4	1.9	1.0	1.8	1.6	5.8	6.6	6.8	5.9	5.3
Ores & metals	13.8	16.0	14.5	15.4	14.3	12.3	16.7	26.1	16.4	15.6
Fuels	8.5	4.9	9.5	9.3	9.6	35.1	7.6	7.1	32.3	13.3
Manu. goods	62.5	66.6	61.0	58.2	56.3	16.8	19.3	23.3	29.3	44.7

Source- Report of UNCTAD Secrateriat, TD/B 1103/Add.1
Based on national statistic of Poland.

Poland is rapidly becoming an important market for developing countries exports. Imports of developing countries primary materials (fodder, gas, oil, phosphate, ores, metals, rubber, textile fibres etc.) are expected to grow considerably as a result of Poland's increased internal production. There are also good prospects for a shift away from raw materials to more semi-manufactured products in purchases from the developing countries (super phosphates, semi manufactured textile products, concentration of ores etc.) Machines and equipement have until now, represented only a small proportion of Poland's imports from developing countries.[14] With growing industrial cooperation, however developing countries might become substantial suppliers of certain goods.

Main Partners-

The main groups of trading partners of Poland are Asia, OPEC and Middle East, with their respective share of exports are

Table 3.10

Main groups of partners in total trade of Poland with the third world. (shares in %)

		1970	1975	1981
Asia	Exp.	49	51	49
	Imp.	43	36	28
Latin America	Exp.	18	18	16
	Imp.	29	22	61
Africa	Exp.	33	31	35
	Imp.	28	41	11
CSO(1)	Exp.	0	0	3
	Imp.	0	0	0
CSO(2)	Exp.	13	14	20
	Imp.	4	7	0
OPEC	Exp.	22	41	47
	Imp.	7	11	13
NIC's	Exp.	13	17	13
	Imp.	21	17	59
Middlle East	Exp.	53	53	64
	Imp.	32	44	27

Source- Data Band CRIES, of the centre for international economics of Socialist countries (Nov. 1983ed.) reproduced from JEC report, US congress Vol.2. (1986)

49%, 47% and 67% in 1981. Poland imports consist mainly goods from Latin American countries and newly industrialized countries with their respective share as 61% and 59% in 1981.

One important feature in it is that Unlike Bulgaria and Hungary, Africa accounts as a major trading partner. In the late seventies Poland's import policy woth newly Industrialized countries has changed very much and their share of imports rise from 17% in 1975 to 59% in just five years.

As far as individual countries are concerned the main partners of Poland's are Morocco, India, Brazil and Egypt. India stood as the single most trading partner of Poland in the seventies but after that it steps downs to second position after Morocco's increasing trade relation with Poland. Among the Latin American Countries, Brazil continued to be major country with which Poland has trade relation. (see Table 3.4)

<u>Management of Payment System</u>-

The development of trade and economic relations between Poland and developing countries is based on bilateral trade agreements, long term agreements on mutual supply of goods, long term agreements on economic cooperatoin, and arrangements related to industrial coopertion in the fields where Poland represents an advanced level of technology and knowhow. The bilateral character of such accords does not determine the form of settlement, which can be by either bilateral clearing or multilateral means i.e. payments in convertible currencies.[15]

In most cases Poland has made arrangement with developing countries under which payments are made in convertible currencies, However, Poland has also entered into clearing agreements, although in 1984 they represented only 7% of the total of 55 trade agreements with developing countries. Another important step taken in the last few years towards closer cooperation with developing countries is the establishments of joint ventures, At present there are more then 20 such joint ventures with the participation of Polish capital in developing countries.

Czechoslovakia

Foreign trade plays an important role in the Czechoslovak economy owing to historical and economic factors in the country's development. A small internal market, a developed manufacturing industry, a relatively limited raw material base and dependence on external food suppliers are the characteristics of Czechoslovakia's economic life that make foreign trade necessery. Czechoslovakia needs external markets for its manufactered goods and outside source of supply for raw materials.[16]

By 1982, foreign trade turnover had increased fourfold compared with 1970. This rate of increase was higher than that of industrial production because foreign trade prices increased faster than internal whole sale prices. Trade turnover in 1982 stood at 207 billion dollars, compared with 7.5 billion dollars in 1970.

Trade with the Developing Countries-

The developing countries have emerged as important trading partners. Their share in Czechoslovak exports reached 13.7% in 1982 and their share in imports was about 10% in same year. In 1985 Czechoslovakia's imports from the developing countries, including CMEA members were 9.4% of its total imports but its exports to the same partners constituted 12.3%. Exports at $ US 2,323 million, exceeded imports from the developing group, at $ US 1,527 million, by $US 796 million, that surplus was considerably larger than the overall surplus ($ US 152 million) because Czechoslovakia was their runing import deficits with the developed market

Table 3.11

Share of Czechoslovakia in the total trade of individual socialist countries of Eastern Europe (1980-85)

(% share in total exp./imp.)

	EXPORT						IMPORT					
	1980	1981	1982	1983	1984	1985	1980	1981	1982	1983	1984	1985
1.World (in million of $US)	14926	14908	15640	16500	17202	17472	15182	14668	15454	16368	17128	17553
2.DMEC's	22.0	19.9	18.5	17.2	16.8	16.3	24.8	22.2	19.0	16.9	15.2	15.5
3.LDC's	13.6	14.8	13.7	14.2	13.1	12.1	9.4	10.0	10.1	9.5	9.0	9.3
4.China	.6	.5	.9	.5	.9	.9	.8	.7	.5	.6	.7	.7
5.SCEE's	63.3	64.6	66.9	68.1	69.1	70.7	65.0	67.0	70.3	73.0	75.1	74.5

Source-UNCTAD secretariat based on national and CMEA statistical publications ECE/GEAD CPE data file.

economies, the developed socialist states and China.[17] (see Table 3.2)

Table 3.12

Major group of partners in total trade of Czechoslovakia with third world (shares in %)

		1970	1975	1981
Asia	Export	56	55	58
	Import	44	39	44
Latin America	Export	9	13	11
	Import	27	27	46
Africa (total)	Export	34	33	31
	Import	29	34	10
CSO(1)	Export	1	1	3
	Import	1	1	3
CSO(2)	Export	21	24	31
	Import	24	9	4
OPEC	Export	23	44	46
	Import	10	16	16
NIC's	Export	6	8	7
	Import	11	17	38
Middle East	Export	62	69	69
	Import	38	47	21

Source-Data Bank CRIES, of the centre for international economies of Socialist Countries (Nov. 1983 ed.) reproduced from report of JEC, US congress, Vol.2 (1986)

Main Partners-

The Asian countries are Czechoslovakia's leading developing country trade partners, accounting for one half of this trade in 1980, Latin American countries occupy second place, followed by the African countries, In recent years, Czechoslovakia has had a positive trade balance with Asian and African countries and a negative one with Latin American countries. Its leading trade partners among developing countries are Brazil, Cuba, Egypt, India, the Islamic

Republic of Iran, Iraq, the Libyan Arab Jamhiriya, the Syrian Arab Republic and Yugoslavia, of the 15 developing countries from which in 1983 Czechoslovakia imported more than $US 10 million, two were fellow members of CMEA, namely, Cuba & Vietnam. Czechoslovakia depends for two thirds of its top 15 customers (excluding Yugoslavia for reasons already stated) on oil dependent economies. If its Latin American partners (Brazil and Colombia are high for its exports) regain their purchasing power, these markets, traditionally favourable to Czechoslovakia could expand[18] (see Table 3.4). With a few exception, the bilateral clearing agreements between Czechoslovakia and developing countries have been replaced by convertible currency payment arrangements.

<u>Commodity Composition</u>-

Czechoslovakia exports to the developing countries consist mainly of engineering products, in various particular types of machinary and equipments, including complete plants, mining machinary, power stations, and equipements for the machine building metallurgical, oil processing, textile, leather and rubber industries. Other export items include industrial consumer goods, semifinished products and materials and chemicals.

Imports from developing countries are mainly traditional items such as raw materials (ores, cotton, hard fibres, leather, natural rubber) and food stuffs (coffee, cocoa, fruit). Imports of industrial products, particularly consumer goods have also been rising steadily. Czechoslovakia is interested in importing processed products from the developing countries because of its own manpower shortage.

Although the birth rate in Czechoslovakia in the 1970's was among the highest in Europe, it will be several years before this affects the size of the Labour force. The present trend regarding imports of processed raw materials from the developing countries is therefore likely to continue for some time. It is Czechoslovakia's declared intention to import more manufacture from developing countries and, in new trade agreements with these countries, provision is made for more import of finished goods.[19]

Prospects of trade relations-

Because Czechoslovakia imports from non-socialist developing countries exhibit the lowest share of all European CMEA members, there is scope for increment, and its plan for 1986-1990 is the sole among that membership which explicitly envisages increasing imports from developing countries. Imports of raw material and of finished goods including consumer goods, are to be paid for by °substantial' increases in exports of machinary and equipments, within the aim of increasing Czechoslovakia's overall trade dependence. The 18-19% growth in net material product envisaged for 1986-90 is to be accompanied by a 24% rise in exports and rise of just under 22% in imports but by an exchanged supply of raw materials and energy.[20] Inputs per unit of "gross social product" must, according to the speech of the chairman of the council of Ministers. L. Strongal to the XVIIth Party Congress, decline by 5%. Proportionally more of those inputs will, it would seem, be imported (to the advantage of developing partners) because domestic structural change will

Table 3.13

Structure of the foreign trade of Czechoslovakia with developing countries (1980-84).

	EXPORT					IMPORT				
	1980	1981	1982	1983	1984	1980	1981	1982	1983	1984
Food items	5.3	3.2	2.8	2.3	3.0	28.1	27.2	25.3	22.9	28.7
Agr. raw materials	2.2	2.0	0.7	0.6	0.9	12.6	9.1	10.8	12.6	11.3
Ores & metals	16.5	13.2	10.8	11.5	13.0	20.8	16.8	16.2	17.8	16.8
Fuels	2.4	2.5	1.5	0.9	1.2	6.2	3.4	7.6	7.5	9.4
Manu. goods	71.6	76.7	49.4	81.0	78.6	30.4	40.6	34.0	33.8	29.3

Source -Report of UNCTAD Secretariat, TD/B/1103 Add. 1 Based on national statistics of Czechoslovakia.

involve a continuing shift from materials extraction to high technology and skill-intensive manufacturing. Export to developing countries would be promoted by credits for equipment sales, but no great change in direction among them is envisaged: "Socialist Orientation" countries and the country's current principal partners in developing countries remain prime products.

Economic cooperation of Czechoslovakia with developing countries-

The considerable role which has been played by Czechoslovakia in the external economic relation of developing countries has been made possible by the increasing production capacities of Czechoslovakia's industry and its ability to participate efficiently in the industrialization programmes of the different developing countries. With only a few exception, Czechoslovakia maintains economic relations with all the third world countries, and in many of them it has participated in building their industries, from the very inception of their economic development as independent states, including the power industry, the petrochemical and chemical industries, the building materials industry, engineering the manufacturing industries and the equipping of factories and forming machines, textile, tanning and shoe making machines, printing machines, diesel sets, compressors, means of transport, tractors and agricultural machines, as well as products such as ball bearings and implements. Consumer goods have had a lesser role to play in Czechoslovakia's deliveries to developing countries. While cetrain raw materials and key materials continues to be important items on the list of its exports to these countries. However, the proportion of engineering goods has been really meaningful, and in a no. of cases these commodities have accounted for over 90% of Czecoslovakia's overall exports to the countries concerned.

Though its participation in building up the national industries of the developing countries, Czechoslovakia has also helped to build up highly qualified engineering and worker reserves in countries such as India, Brazil and Egypt. Hundred of leading Czechoslovakian technicians and workers have participated in the process, putting the supplied equipment into operation and trains the local personal. An equally important aspect of mutual economic cooperation are imports from developing countries, although their volume and structure have been, and are, very different depending on the production and exports capacity of the various partners very often it was most difficult to do away with the old system of middle man in the former colonial metropolicies and important European ports.

Prospects of Economic Cooperation-

The economic crisis, which in the early 1980's hit the developing countries most severely, had a negative impact on Czechoslovakia's trade with these countries. In addition this trade was affected by the high foreign debt of some of these states, the consequences of which was the halting or substantial cutting back on capital construction in the public as well as private sectors of those countries. The fact that in Czechoslovakia, exports to the main developing countries a considerable role was played by complete industrial plants delayed the impact of the crisis on czechoslovakia exports, because most of the deliveries of equipments were made according to the originally agreed upon schedules and the construction projects underway.[21] The year 1986 witness the introduction of austerity measures especially in the public sectors of the oil producing countries in connection with the rapid decline in their foreign exchange earnings from oil exports. Thus at the time when the process of economic revival was expected to produce an effect in the developing countries, this developments was offset by the economic crisis. The presence of the I.M.F. for limiting public spending and the short fall in incomes from oil in the oil producing countries are slowing down the process of recovery in the different sectors. A certain revival differing according to the individual situations in the regions and states can be observed in the private sector. This situation also influences the prospects for Czechoslovakia's economic cooperation with developing countries in the period from 1989 to 1995. In the effort to promote material trade, Czechoslovakia is not opposed to possibilities of negotiating different kinds of tied operations the purpose of which might be the repayment of Czechoslovakia equipments with products of the partner country or some other advantageous system of counter deliveries. There are a no. of position examples and experiences in this respect in trade with various developing countries. To boost economic cooperation with developing countries in a mutually advantageous basis, Czechoslovakia has signed trade policy documents with its partners to this effect. Under their provision, joint commission meet regularly, depending on the nature and extent of this cooperation, with the aim of seeking and recommending to the respective bodies of both parties measures for producing mutual economic relations. Czechoslovakia is of the opinion that good prerequisites exist for such a developments of mutual trade in the period up to the year 1990.

German Democratic Republic

Foreign trade plays a very important role in the economy of the German Democratic Republic, with about one third of national income being redistributed through foreign trade channels. During the past decade (1970-81), foreign trade turnover increased much more rapidly (9.8% per annum) than national income or industrial production. In 1986 the volume of foreign trade reached 49.2 billion dollars, with exports of 24.7 billion dollars and imports of 24.4 billion dollars, (from 1986 to 1990 the foreign trade turnover is due to increase by 29% compared to the period from 1981 to 1985).[22]

Machinery and equipments are the most important export items of the GDR, these include external engineering equipments, textile machinery, printing machinery, electronic equipments and machinery for the dairy/food processing and chemical industries. Other export items include fertilizers, chemicals and industrial consumer goods with regards to imports, more than 60% of the overall requirements of raw materials are imported. Various food stuffs and consumer goods are also imported, as well as a great amount of machinery and equipments.

Trade with the developing countries-

The policy of the GDR has been to develop mutually beneficial cooperations on an equal basis with the developing countries. Trade with those countries is based on intergovernmental agreements assuming the continuous supply and purchase of goods and the intensification of economic cooperation. By the end of 1982, the German Democratic Republic had

Table 3.14

Share of G.D.R. in the total trade of individual Socialist countries of Eastern Europe (1980-86)

(% share in total exp./imp.)

	EXPORT						IMPORT					
	1980	1982	1983	1984	1985	1986	1980	1982	1983	1984	1985	1986
1.World (in million of $US)	17312	21743	23793	24836	24997	24731	19082	20196	21524	22940	23182	24450
2.DMEC's	24.2	29.0	30.0	30.1	31.3	31.2	30.6	27.4	28.9	29.1	26.9	31.1
3.LDC's	10.3	10.6	9.4	8.2	8.3	7.8	9.1	7.6	8.0	7.8	8.1	6.8
4.China	0.9	0.3	0.3	0.3	0.3	0.4	0.6	0.2	0.1	0.3	0.3	0.3
5.SCEE's	64.0	59.4	60.1	60.9	60.1	60.1	59.1	64.3	62.2	62.2	64.7	61.5

Source- UNCTAD secretariate based on national and CMEA statistical publication ECE/GEAD CPE data file.

intergovernmental agreements with 62 developing countries[23] (see Table 3.2).

Main Partners-

Oil producing countries always stands as the main trading partners of G.D.R. Though the import figures of German Democratic Republic are not available but according to its export figures. The share of G.D.R. exports to OPEC countries is 38% and to Middle East, it is 51% whereas the share of Asian countries is 46%. (see Table 3.15)

Among countries, Iraq is the main trading partner since last decade. The other important partners are Iran, Brazil and India. (see Table 3.4)

The German Democratic Republic does not publish country trade by imports and exports, but only as their combination into turnover. The analysis of export surpluses and import deficits cannot hence be made from its own statistics, (which nevertheless indicate a surplus creating principally to equipments) with Iraq, Cuba, The Islamic Republic of Iran and Syrian Arab Republic. CMEA agreements clearly be behind imports of cuban industrial semi-manufacturers relatively little equipments is said to Brazil, the import from which are all of agricultural origin. Half of its turnover (52% in 1983) with 15 leading partners is with oil producers (omitting Yugoslavia from the total) and it has been earning substantial sums of convertible currency by, inter alia, resulting oil and petroleum products of Soviet origin, the oil price decline hence hits its export earning in ways.

Table 3.15

Major group of partners in total trade of GDR with Third World (shares in %)

		1970	1975	1981
Asia	Exp.	–	–	–
	Imp.	39	55	46
Latin America	Exp.	–	–	–
	Imp.	26	16	22
Africa	Exp.	–	–	–
	Imp.	34	21	32
CSO(1)	Exp.	–	–	–
	Imp.	2	0	0
CSO(2)	Exp.	–	–	–
	Imp.	10	35	23
OPEC	Exp.	–	–	–
	Imp.	9	33	38
NIC's	Exp.	–	–	–
	Imp.	18	11	19
Middle East	Exp.	–	–	–
	Imp.	50	68	51

Source- Data Bank CRIES, of the centre for international economies of Socialist countries (Nov. 1983 ed.) reproduced from report of JEC, US congress Vol.2 (1986)

Commodity Composition-

Export to developing countries consists mainly of machinery and equipments, especially for transport and communication, electrification, building and construction, the textile industry, machine building, printing and the processing of agricultural products. At the same time, license and knowhow have been transferred for roller-bearings, borings and milking machines, precision and optical instruments and field glass and photographic films.

Imports from developing countries consist mainly of raw materials, including crude oil, hard oil, rubber ferrous and non-ferrous metals, phosphate cotton, cotton fabrics, protein fodder, vegetable oil, coffee, tea, cocoa and tropical fruits. In recent years, the GDR has increased imports of some manufacturers and semi-manufactured products such as handicrafts, textile products, garments leather goods, shoe-uppers, sanitary fittings and canned food and products of mechanical engineering and the automobile industry and there now constitute about 40% of total imports.

Notes

1. Manual of Trading with Eastern Europe, N Y, Geneva, 1987, p.13

2. Ibid, p.14

3. Prospects in Trade with the Socialist Countries of Eastern Europe: Bulgaria - Policies, Development and Institutional Framework, TD/B/752, 7 Aug. 1979, p.15

4. Trends in Trade and Economic Cooperation amongst Countries having Different Economic and Social Systems, UNCTAD/ST/TSC/9, 5 Nov. 1986, p.62

5. N Y, Geneva., 1987, n.1, p.47

6. Ibid, p.48

7. Ibid, p.49

8. Prospects in Trade with the Socialist Countries of Eastern Europe: Hungary - Policies, Development and Institutional Framework. TD/B/815, 29 July 1980, p.17

9. Ibid, p.19

10. N Y, Geneva, 1987, n.1, p.62

11. Ibid, p.63

12. UNCTAD/ ST/TSC/9, n.4, P.89

13. Prospects for Trade and Cooperation of Countries having Different Economic System, UNCTAD/ST/TSC/6. p.49

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19. Prospects in Trade with the Socialist Countries of Eastern Europe: Czechoslovakia - Policies, Development and Institutional Framework, 12 Aug. 1982, p.16

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Chapter 4

Conclusions and Future Prospects

Before reaching to any conclusion and giving any future projection, it will be useful to take up certain issues of controversy regarding the economic relations of CEMA and developing countries. Some of the major issues are:

1. The role of balance of payment in the trade relations between CMEA and developing countries. It is said that the CMEA countries uses trade relations with developing countries as balance of payment correction device. In fact the role of the developing countries in the balance of payment adjustments of the CMEA countries seems to be very structural. Such institutional characteristics of the CMEA countries as central planning and the monopoly of foreign trade allow them to take an integrated view of their foreign trade flows and use trade with developing countries as a potential vehicle of overall balance of payment adjustments. There is emperical evidence that in addition to conventional gains, the CMEA countries derive special hard currency gains from trade with the South, though the precise magnitude of such gains cannot be determined due to data limitations with regard to payment arrangements among socialist and developing countries.

Though some analyst sceptical about the CMEA countries ability to reduce their debt towards the West in a significant way by earning hard currency surplus in their trade with developing countries, the newly emerging view attributes considerable role to Eastern hard currency surplus vis-a-vis the South in offsetting the CMEA countries hard currency deficits with the west and in servicing their foreign debts. a shifting combination of export drive, sharp import reduction and reexport of Middle East and North African oil to the West was consciously used especially in the first half of the 1980's, to maximize hard currency earnings from trade with the South, particularly the oil producing countries of the Middle East and North Africa. As table 4.1 shows the estimated cumulative trade surplus of CMEA six for the period 1980-86 is 13.2 billion dollars against 9.1 billion dollars, earned in trade with the west. The contribution of surplus with the developing countries is considerable by many measurs, but it is especially sn given the comparatively marginal share of developing countries in the CMEA six's overall trade.

Table 4.1

Convertible Currency Trade Balance of CMEA Six

Year	Market Eco's	Developed market economies	Developing market economies
1980	-2.9	-2.3	-0.6
1981	1.4	-2.0	3.4
1982	5.2	1.7	3.5
1982	6.0	3.7	2.3
1984	7.3	4.7	2.6
1985	4.6	2.7	1.9
1986	0.7	0.6	0.1

Sources- for 1980-81, estimates of the Vienna Institute for comperative Economic System and for trade balance of GDR derived from data in UN, monthly Bulletin of Statistics July 1986, for 1982-86 estimates of UN. ECE Secretariat (ECO Bulletin for Europe. Vol. 38, U.N., 1986.

With the recent collapse of oil prices and the resulting weakness of import capacity of the OPEC countries, the CMEA countries are no longer able to use as effectively as earlier, trade with the Middle East and North Africa as are instruments to offset financial imbalances with the west.

2. The second controversy is regarding the ability of CMEA countries in providing Economic Assistance to the developing countries. It is said that East European countries are under-performer in providing Economic Assistance to the developing countries. Perhaps the most controversial element of East South economic relations is the aid provided by the CMEA countries to the Third World. As is well known, in their their official statements the socialist countries invariably disclaim any responsiblity for the existing conditions of the developing counties and consequently reject all demands for targeted and automatic resource transfer. Since there is no systematic reporting in the socialist countries on aid flows, it has become customary to rely on Western estimates, which are based on highly unsatisfactory and insufficient data. Nevertheless, western estimates consistently show, The CMEA countries as under performers in aid provision relative to the western countries and that the overwhelming position of the aid goes to a few socialist developing countries.

The evalulation of CMEA aid is made difficult not only by the critical value of data problem, but also by the fact that the CMEA countries provide assistance in more complex forms than usual among the OECD (Organization for Economic Cooperation and Development, based in Paris, established in 1961 to assist member countries in the formulation of their economic policies and encourage them to cooperate internationally. 24 countries are members of the OECD, including Canada, USA, Japan, Australia, New Zealand and most European countries. In addition to the established transfer mechanism, the CMEA countries, particularly the USSR, provide resource transfer to the socialist developing countries in a variety of ways such as pricing arrangements (i.e. price subsidy in the form of selling Soviet oil lower than the world price or purchasing goods at higher than the prevailing world market price), concessional terms in the payment for technical assistance provided by the socialist countries, training of Third World students free of charge or at concessional rate terms, the provision of favourable transport rates the permission of trade deficits to accumulate, or are cancelled or transferred into concessional loans etc. of course against this have to be set various advantages sometimes detained by CMEA countries when, for instances, they resell on the world market developing country products imported under bilateral agreements, or acquire fisting rights etc.

When also accounting for these forms of aid, the CMEA countries performance is quite comparable with of the west. According to recent official Soviet announcements, the USSR's aid from 1976 to 1980 accounted to 30 billion roubles, allegedly corresponding to one percent of the country's Gross National Product over this period. Another official announcements put the 1983 Soviet development assistance at 1.2 percents of the country's Gross National Products. At the 1983 UNCTAD VI session official statements were made by several small CMEA countries. The GDR claiming for 1982 total

Economic Assistance equal too 79% of its National Income), Czechoslovakia (0.74%) and Bulgana (0.79%). Unfortunately, it is not known how these figures were arrived.

As table 4.2 shows, according to OECD estimate total CMEA aid amounted to some 3 billion dollars a year since the early 1980's which correspond to about 0.2% of the combined Gross National Product of the member countries. The report of the OECD Development Assistance Committee mentions the possibility of under estimation of the CMEA aid flows as the non-conventional forms of resource transfer are ignored. It is quite reasonable to assume that the realistic measure of CMEA aid performance lies somewhere between the downward biased OECD estimate and the upward biased official CMEA estimates.

In this assumption, CMEA's aid performance does not appear inferior. Even the OECD's downward biased figure of0.20% compares quite well with the U.S. (.24% as 83-84 aveg.) Italy (.28%) or Austria (.26%) especially if one takes into consideration the considerable development and welfare gap between the CMEA and OECD countries. The smaller economic potential and persistent domestic economic difficulties of the CMEA countries, the fact of having own "third world" (Soviet Central Asia). The resource requirements of East West system competition and confrontation, as well as the fact the CMEA countries do not obtain profit income in their transaction with the south which is comparable in any meaningful way with that of the OECD countries.

Table 4.2

CMEA countries Net Disbursements to Developing Countries and Multilateral Agencies
(million dollars, current prices & exchange rates)

	1975	1980	1981	1982	1983	1984
A. Bilateral assis. net of which						
1. LDC's members of CMEA	1,220	1822	2212	2297	2347	2347
2. Other socialist countries	65	456	389	275	411	217
3. Other developing countries	146	97	18	27	-15	-9
4. Scholarships	71	310	360	417	415	415
Total	1502	2685	2979	3016	3158	3024
B. Multinational contributors	10	14	12	10	9	9
C.Overall total	1512	2699	2991	3026	3167	3033
As % of GNP	0.14	0.17	0.21	0.21	0.21	0.21

Source- OECD/DAC, Development Cooperation: 1985 review, Paris, OECD, 1985, p.115.

3. The other issue of controversy is regarding the practice of bilateralism in trade relations between CMEA members and developing countries. The closed payments system has invariably led to criticism relating to (a) switch trading and (b) terms of trade and it has been suspected that both these factors are adverse to developing countries. In this regard we take note of many studies undertaken in India which have concluded categorically that there was no hard evidence available on °switch trading' of Indian goods and if at all it took place, it was not of a magnitude which could or has

hurt the Indian export globally.

The main criticism of bilateral system of trade and payments relates to prices of goods of exchange and hence terms of trade for developing countries, whereas under the multinational system, trade is controlled through prices and tariffs occupy a key position, under the bilateral system the volumes of deliveries agreed upon bilaterally between individual partners occupy the key position. Since there is no organic connection between prices of tradable goods in centrally planned economies, the question will, therefore, be asked "at what set of prices does international trade take place in the socialist countries of Eastern Europe? It is here that conclusions as to the political nature of prices, and, hence trade are frequently drawn. We would like to suggests that this is not necessarily so. Although the centrally planned economies are continuously wrestling with this problem, as yet alien world market prices constitutes the price basis both in Intra-CEMA trade and trade with both developed and developing world. Under such a situation viable criteria for valuation exist only for raw materials and fuels; for fruited products and especially machinery, many complex factors operate from product to product, not-unimportant factors being, experience, sixth sense and partnres negotiating capacity.

Given the above situation any partner country of socialist country of Eastern Europe has to examine whether they (SCEE's) are selling cheap and buying dear or not. We consider it necessary at this stage to point out that precisely for the reasons mentioned above, the criteria applicable to counter trading which essentially bilaterilises trade with investors from market economies, do not apply and should not be applied to bilaterialism as practised by the SCEE's since that is likely to lead to distorted conclusions. State trading pricing mechanism cannot be reconciled with market pricing mechanism, and, therefore, under the bilateral system of trading, a negotiater's ability assumes greater importance in price negotiations. Although there is no stipulation in trade agreements regarding prices, in practice, the goods are bought and sold on the basis of world market prices.

Future Prospects of CMEA - Developing Countries Economic Interactions-

There are a few major forces one can identify which will underline CMEA - developing countries economic relations over the next 15 years. There is an underlying trend in the East European countries for the labour force becoming increasingly scarce and expensive, especially if one takes into account the sluggish productivity growth. From this fact one can draw certain conclusion for the prospective CMEA - developing countries economic relations. The socialist countries will be increasingly forced to import manufactured goods from the developing countries in order to upgrade and modernize their industrial structure. The structural policy of the CEMA countries at the moment is inadequate with respect to needs and requirements. It tends to result in a situations where a new developments amounts to putting one more layer to the existing structure. The industrial structure as a result gets very complex and overly diverse. Such development can not be very successful as a result of the lack of development resources which hinders the emergence and growth of new sectors and technological upgrading of the existing ones. This is to a large extent because the socialist economies bear the burden of those enterprises and industries that have been created in the past and despite their long term inefficiency managed to stay alive and whose survival assurance is provided at the expense of the new sectors. The developing countries potentially can play a significant role in the adjustments policy of Eastern Europe by freeing resources in those sectors where the socialist countries dearly lost their comparative advantage via conscious structural policy The socialist countries can make room for adjustments by redeploying certain lives of activities to the South and by engaging in accelerated manufactured goods imports from developing countries. This has been the case with respect to Western Europe and North America and it is clear that structural accomodation of the increased manufactured goods imports, from the developing countries has been a painful process, especially for the most affected sectors in Western Europe. This structural accomodation has not happened so far in the case of East Europe, but it should happen otherwise the CMEA countries will find it even more difficult to compete on the world market because of the inferior quality of products which results from an overly complex and inflexible economic and industrial structure. The socialist countries have the potential advantage over the market economy countries to anticipate structural changes and to implement this adjustment in a planned way. This advantage, however, is not automatically captured. There seems to be a recognition lag on the part of Eastern Europe concerning the importance of industrialization processes in the Third World. There should be a push towards recognizing the need and importance of a sturctural shift toward less labour and material intensive lines of production in Eastern Europe.

A set of "environmental factors" conditioning the prospective evolution of CMEA-LDC's economic interaction is related to the changes in the major trading areas of the individual socialist countries with respect to CMEA, the important variable will be the rapidity of the integration process. One of the major "environmental factors" in the CMEA which is related to prospective CMEA-LDC's relation is the natural resousce Situation..The 2 CMEA integration has been to a large extent an extracting industry integration. The executive sector has been the prime mover of the integration process. One can see a declaration in the integration process as a result of the problems the socialist countries have encountered in the area of extracting industry. The Soviet extractive industry has entered into a new stage in its evolution which cannot be considered dynamic. In some sectors of the Soviet extractive industry, there is a significant declaration of growth and in the case of oil production there is a levelling off tendency as opposed to a very dynamic output increase in the past. This, of course, will reflects also in the Soviet Union's ability to export natural resources to Eastern Europe. The latter will become increasingly hard commodities with in CMEA, almost being the equivalent of hard currency and they will be difficult to obtain.

This is the current situation, on the basis of the underlying forces in the CMEA, we do not forsee any major improvement over the next 15 years in this area. Actually the situation can get even worse which then may result in serious policy implications for the CMEA six. Projections indicate that a rise in imports of several major fuels and minerals from non-socialist countries (mainly developing countries) to meet the growing needs of East European countries seems inevitable. Therefore, it is likely that these countries to be a competing demand in the CMEA countries import of southern manufactures and primary goods. Earlier we pointed out the necessity to accelerated manufactured goods imports from the South but, on the other hand, the acute problems in the area of natural resource supply can make this evolution towards greater manufactured goods imports very difficult, if not impossible, depending, of course, on the volume of import needs of the socialists countries with respect to major minerals and fuel. So, this is a big question mark, a policy decision dilemma for the East European countries as to how to proceed in this contradictory situation. One possible way to resolve this trade off in favour of manufactured goods imports would to be decelerate the rate of growth of energy and raw materials consumption which historically has been excessively rapid as a result of the centrally planned economies systematic propensity toward over consumption. There is a considerable potential to decrease the margin of over consumption, but this is generated to the reform of the whole institutional setup, including the incentive structure facing the consumers, of these countries. This policy option then interrelates the commodity pattern of CMEA imports from the South with domestic economic reform.

The qualitative problems of the CMEA integration are most manifest in the area of manufacturing industry integration. The coming period will probably bring a further exacerbation of the problems of intra- CMEA manufacturing cooperation because export growth in every CMEA country will have to be stimulated by the qualitative improvement of manufacturing "soft good" imports from partners, however, will not provide a sufficient base for that.

The crucial condition for the significant qualitative improvement of intra-CMEA manufacturing cooperation is the widespread expansion of direct inter firm cooperation. That, however, requires autonomous enterprises, which in turn means that the future of the whole system of manufacturing cooperation is a function of the economic reform in the CMEA countries. However, in most of the member countries the implementation of a reform, that is not just symbolic, cannot be predicted with certainty. The currently prevailing national economic mechanisms and the mechanism of CMEA level cooperation reinforce one another and run counter to the widespread development of manufacturing integration. The established system of cooperation fails to stimulate the creation of export capacities, producing competitive goods for the world market. In such a situation the more intensive expansion of the division of labour with the non-CMEA countries would be a natural outcome and the South may be one of these partners, particularly in view of the latter's potentially important structural role in creating a more selective and upgraded industrial profile in the CMEA countries.

The expected evolution of West South trade in the next period will exert a considerable although indirect, influence on the external conditions of economic cooperation with the developing countries and the criteria of partner choice in the Third world.

In the period upto 2000 the manufactures exports of the developing countries are expected to maintain the dynamic growth established in the past decade despite the moderate growth of the world economy and protectionist measures. The developing countries traditional goods markets may also expand, although under the combined effect of the declining growth of demand and protectionist measures, market penetration will be slow. The United States, the EEC, and Japan intend to cut or even abolish their preferences granted to the more advanced developing countries. The above factors will encourage a further diversification and product up-grading in the sphere of manufactures exports on the part of the developing countries. In the case of such labour-intensive goods as china and glassware and furniture, where the developing countries are represented by a relatively small market share, export to the developed countries will grow dynamically. A rapid export expansion is expected for products characterized by a high income elasticity, such as sports goods. The export of semifinished goods and parts also provides great opportunities. The share of capital and technology-intensive products will grow at the expence of labour intensive products.

In view of the above, the share of the OECD countries in the overall trade relations of the developing countries will remain decisive upto the turn of the century.

Those developing countries that are most seriously affected by the restrictive measures imposed by the OECD countries or are less competitive than other Third World exporters might tend to enhance their economic relations with the CMEA in order to diminish their dependence on the markets of the OECD countries and to intensify their export by market diversification. An eventual redirection of relations in favour of the socialist countries greatly depends on the degree to which the CMEA countries open their markets to the products of the developing countries and succeed in eliminating, by developing more advanced and long term forms of cooperation their own relative disadvantage in the choice of partners by the developing countries.

Within the set of long term conditions of cooperation with the developing countries, the intensification of intra-Third World division of labour is gaining more importance and, if approached passively, might contribute to the East's relative loss of ground in the Third World. A farsighted and aggressive marketing policy may temper the possible disadvantages consequences of the process in question and may even open up new opportunities for cooperation for the CMEA countries.

The strengthening of South - South has thus far manifested itself first and foremost in the dynamic increase of their trade with one another. In the long run the rate of growth of South - South trade will remain higher than that of World trade and that of the Third World's trade with the other groups of countries. Consequently, an increasing proportion of their exports will go to other developing countries, that is, a growing share of the import demand of the developing countries will be met by exports from other developing countries.

The intensification of South - South economic cooperation has already had a significant impact on the economic relations of the socialist countries and the developing countries. In the past decade the European CMEA has lost more ground in the exports and imports markets of the developing countries than the OECD countries, although the socialist countries share in these markets is very small. Moreover, the greatest loss in the CMEA exports to the developing countries occurred in that very group (machinery and transport equipments) which underwent the most dynamic increase in intra- Third World Trade. Thus the Main losers of the expansion of this trade have become the least competitive marginal partners. The promotion of integration into South - South cooperation is a very significant task for CMEA countries. Otherwise cooperation among developing countries will inevitably exert a permanent negative influence on the CMEA's marketing ability in the Third World, with special regard to the manufactures, a sphere where intra- Third World trade is expected to grow fast.

The prospective evolution of East West economic exchanges, as part of the World Economic environment indirectly influencing East South ties, will play an important role in the future. In the 1970's, East-West economic relations have developed rather rapidly, and the general dynamics of East West trade was determined by the imports needs of the socialist countries. The current decade sees a situation where rather the export capabilities of the socialist countries conditions the growth of East West trade. If we look at the CMEA countries export capabilities objectively and the receiving overall market environment in the OECD countries then one cannot be very optimistic about the prospective potential of growth in East-West trade. There is going to be a sluggish growth in this segment of world trade, even if the West successfully recovers from the recent recession. The foreign debt situation of most of the East European countries is obviously a constraining factor. Furthermore, the tendency towards politization of East West relations to same extent and the degree of this deterrence will vary in the individual socialist countries. The politization attempts on the part of the United States, which have had some impact on Western Europe and Japan, and the resulting policy uncertainty in the context of East-West economic relations will not go unnoticed by some of the CMEA countries and potentially may result in a redirection of efforts to trade with alternative actors, as demonstrated, for example, by the USSR to switch toward Southern suppliers in food imports. In the resulting situation the significance of developing countries as alternative export and import markets will probably increase.

An important conditioning factor for East-South exchange will be the prospective evolution of Third World Economic growth. It is probably correct to suppose that over the next 15 years the Third World as a whole will develop at a significantly higher rate of growth than the rest of the world. We believe that as the west will recover from the present economic malaise so will most of the south, given the empirically observable strong linkage between growth processes in the west and the south. Objective conditions existing in the south will warrant a significantly higher rate of growth for these countries and, by implication, a significantly higher rate of growth of import demand. So like in the past, in the next 15 years the developing countries will constitute the most dynamically expanding import markets. There is going to be a continuing shift of economic dynamism towards extra-european territories and the CMEA countries can try to capture the opportunities of growing import demands although the rapidity of the import increase of the developing countries will not be as strong as it was in the 1970's.

The "push" and "pull" forces discussed above, acting in the foreign and domestic economic environment of the CMEA countries, suggest that in the coming period, the greatest room for manoeuver will open up for the CMEA economies in relation to the Third World. The combined impact of the above processes in the world economy affecting the long-term economic relations between the East and the South makes it possible and even imperative that the Third World's share in overall CMEA trade be increased significantly.

The intensification of CMEA countries relations with the developing countries and the exploitation of the inherent cooperation opportunities require the performance of several foreign economic tasks, the most important of which seem to be the following:

(i) Long-term economic strategy and, as a part of it, structural policy and foreign economic policy should have clear and definitive objectives relating to the developing countres. The Third World should be integrated into structural policy of the CMEA countries. Treating the Third World as a residual (that is, shortage eliminating and surplus dischanging) sphere is untenable in the long run.

(ii) Instead of, and besides, the prevailing adhoc relations, it would be useful to establish a long-term and stable division of labour corresponding to the aims of the East's long-term structural policy endeavours, to the fundamental economic interests of the developing countries, and to the basic trends of the international division of labour.

(iii) The excessive fluctuation of trade with the developing countries is to be checked by a careful choice of partners and the establishment of more profound division of labour relations.

(iv) In this context the geographical radius of East South trade and cooperation relations is to be increased, especially in the direction of steadily and rapidly expanding solvent markets, including the NIC's.

(v) The present commodity pattern of East South trade is unsuitable for the dynamic developments of mutual economic relations. In Eastern exports a deliberate structural policy is required to reduce the share of those products for which the developing countries present a growing challenge both in the Western and the Third World markets. The relatively high proportion of raw material and energy-intensive goods and semifinished products in Eastern exports contradicts both tha endowments of most of the CMEA economies and the basic trends of industrialization in the developing countries.

(vi) Within Eastern imports from the developing countries, the share of non traditional goods, especially semifinished goods and certain manufactured products (machinery and consumer manufactures among others), should be increased in order to move toward more selective industrial structure in the East.

(vii) The organizational forms and mechanism of cooperation require substantial modernization and the widespread implementation of more flexible, complex, and permanent forms of cooperation, including foreign direct investment ties. Past experience demonstrates that the intensity of cooperation depends, to a great extent, on the chosen institutional form. As opposed to the actual practice, the East should strive to create not only export but also import-oriented cooperation deals. It would be useful in this respect to redeploy, partly or totally, those domestic productive activities, which have lost their competitiveness at home to developing countries.

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