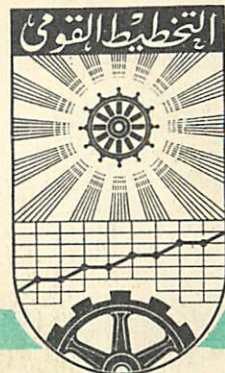


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SOME ASPECTS OF CHANGES
IN WORLD ECONOMY VIEWED FROM
THE HUNGARIAN ANGLE

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Some Aspects of Changes in World Economy Viewed from
the Hungarian Angle

The deep-going changes in world economy have today come into the focus of all debates on economy.

On one single occasion it is certainly not possible to discuss in detail all correlations of these changes, nor is it my intention to do so in this lecture, yet I should like to point out some problems that are of particular interests for Hungarian economists. I shall assign them to the following three groups:

- the background of changes in world economy;
- the struggle for a new international economic order;
- world-economic changes and Hungary.

I.

The Background of Changes in World Economy

The international economic literature as well as debates at various international forums very often feature views attributing the changes in recent years to this or that event. In our opinion, it is not possible to understand phenomena and to prepare for their possible consequences without trying to analyse the causes in a wider setting and from the viewpoint of the most important correlations, to say the least. If we single out separately the rise in oil prices, the problems of developing countries, the crisis phenomena in capitalist countries or the world's food problem, we remain on the surface.

The changes that have taken place and that will take place cannot be understood without examining, first and foremost, the changes in the international economic and political power relations. Not long ago the functional mechanism of the world economy was still fundamentally characterized by the interests of capitalist economy, namely - as could clearly be observed in the financial system of Bretton Woods, for instance - interests which corresponded to the period immediately following the Second World War. Since then, world history has witness two salient processes: the establishment of ^{the} socialist world order and the decomposition of the colonial system.

1. The weight and role of the socialist countries in both international politics and world economy have grown considerably. The CMEA countries, in 1950, for instance, had a 20 per cent share in the industrial production of the world, a figure which has since well exceeded 30 per cent. The growth of ^{their} ~~our~~ per capita national income has been about one and a half times higher than that of the developed capitalist countries. Today the quickest rate of development can be observed in the socialist countries. An important part in this is played by the Soviet Union, the first socialist state of the world, as well as by the close political and economic co-operation of the

socialist countries. It is difficult, if not impossible, to quantify the significance of the internal social transformation which has put an end to the uncertainty of existence, has led to a just distribution of incomes and to the elimination of exploitation and which has resulted in a rapid rise of the cultural and social standards of the population in a country formerly living in semifeudal circumstances, like Hungary.

The economic development of Hungary over the past quarter of a century may perhaps best be characterized by pointing out that the per capital national income has risen 3.4 times during this period. The rapid economic development of the socialist countries without crises and regressions is an attractive example for the large masses even though they may not conceive their evolution in the same manner. It proves that consistent progressive internal policy coupled with ^{achieving} economic independence enables countries successfully to fight the economic system of imperialism and to break away from it. Today no essential problem in world economy - not to speak about world politics - can firmly be solved without considering the interests of the socialist countries, without realizing their international status.

2. The other fact of historic consequence that has changed the international power relations is the dissolution of the colonial system. This process was greatly accelerated by the strengthening of the socialist system. The consequences of the disintegration of the colonial system can be characterized as follows:

- The political alliance of socialist countries and of the peoples fighting for their independence has been established in the struggle for liquidating the colonial system;

- Imperialism has been compelled to make concessions that have made it impossible to maintain the modes of exploitation used earlier;

- The economic position of the colonial powers has weakened considerably but we can witness a strengthening of the position of those which had earlier applied the neocolonialist methods of more elastic economic penetration;

- The situation in which a few big capitalist countries could take decisions concerning problems affecting the major part of the world is disappearing, and they are more and more compelled to take into account also the endeavours of the liberated countries;

- The existence of the socialist world order and the strengthening solidarity of the developing countries - particularly what manifests itself in the movement of the unaligned countries - render imperialistic manoeuvres difficult;

- The significance of the raw-material resources of the developing countries in meeting demand in other parts of the world continues to be considerable while the competition of the developed capitalist countries for markets in the developing ones is becoming keener and keener;

- The political independence of the developing countries has by far not involved the consolidation of their economic independence yet the establishment of their political independence itself evidently triggers off internal economic development to a certain extent /like customs frontiers, requirements of national political objectives etc./.

Yet with the consolidation of the political situation the countries are becoming more and more conscious of economic development which soon leads to realizing the necessity of economic independence and to the evolution of the fight for the consolidation of economic independence in addition to political independence. This fight is promoted by the

fact that in critical cases the developing countries may reckon with the help of socialist countries - to the extent of their economic capacities. Let us just recall such examples as the Assuan Dam, the nationalization of Iraqi oil, the ~~blockade~~ blockade against Cuba, the situation in Angola etc.

3. In addition to the disintegration of the colonial system and to the evolution of the socialist world order, a number of other factors also affect the appearance of new phenomena in world economy. One of these factors is the changing of the power relations of the developed capitalist countries. In 1950, for instance, the actual member states of the Common Market made up 27 per cent of the world's export, Japan yielding 1.5 per cent of it while in 1975 the corresponding figures were 34 per cent and 7 per cent, respectively. During the same period the share of US exports fell from 17 to 12 per cent. In spite of this decrease the US is still the strongest capitalist power of the world, particularly if we consider, beside its commercial turnover, also its weight in possessing the most advanced technologies as well as the world-economic impact of the American-owned international monopolies all over the world.

4. The image of the world has radically been changed by the rapid scientifico-technical revolution. Nuclear physics and technologies, artificial giant molecules, synthetic materials, computer techniques, electronics have rapidly gained ^{ed} ground in industry. As far as research input and the capital-intensity of investments are concerned these novelties raise new requirements which ~~fewer and fewer~~ ^{fewer and fewer} countries can cope with alone. At the same time, these technologies are more differentiated than the earlier ones and are less suitable for elastically following the sudden changes in market demand. Owing to technical development, the products needing advanced technologies and manufactured in a large part by big international monopolies are becoming more and more expensive while products representing middling or backward technologies are losing their value in the world economy.

5. A fundamental characteristic of international economic life is that economic processes are becoming more and more international:

- The development of the forces of production, of technologies continuously increases the dimensions of ~~the~~ production. The home market of smaller countries cannot absorb such products which then have to be realized abroad and require a deeper international division of labour.

- The big capitalist monopolies are gradually transformed into transnational enterprises wishing to impose their own international economic policies disregarding the national interests of the individual countries;

- Certain groups of countries achieve stronger integration for exploiting advantages deriving from the international division of labour. The co-operation of the socialist countries within CMEA has evolved new features of the system of international relations characterized, among other things, by equality, mutual assistance and planned international connections. West-European integration within the Common Market has taken a different line of evolution, namely a direction toward the integration of the markets in the first place and towards the domination of the market by the stronger;

- Modern technologies have contributed not only to rapid technical development but also to the movement of people, to a rapid diffusion of instruments, views and diseases far beyond the national borders;

- Mankind is taking possession of natural environment, involving again the necessity of international regulation;

- An unfailing sign of the internationalization of economic processes is the fact that during the past quarter of a century world trade has grown more than three-fold as compared with world production.

- Economic contacts beyond trade are gradually widening among countries, as is shown by such examples as transfer of technologies, production co-operation, co-operation in research, a co-ordinated development of the infrastructure in the case of countries lying close to one another etc.

All this is borne out by the rapid development of international trade, by the fact that about one-third of the investment goods produced in the world, more than one-fourth of the energy carriers and raw materials and one tenth of the consumer goods reach the utilizers through the channels of foreign trade. There is a growing inter^{ac}tion between national economies resulting in an intricate system of ties wherein an important role is played by the degree of independence achieved by the individual economies /which, in turn, is associated with the problem of economic advancement/, on the one hand, and, on the other, by the growth of mutual dependence of the individual national economies. These are affected also by their being dependent on the import of energy

carriers, raw materials, foodstuff and investment goods. For most countries a primary factor of growth is the efficiency of their participation in the international division of labour. The existing development trends cannot be ignored by seclusion or by trying to achieve protectionism. The dependence of countries on foreign economic relations is reduced only apparently by isolation; seclusion, in fact, exposes them to the effect of forces which they could anyway not avoid but which thus affect them unexpectedly and penetrate them in an undesirable manner. The actual task is to assess the trends, their inclusion into the national development plan after a realistic evaluation of the risks involved, and the formulation of an economic policy aimed at strengthening economic positions by making use of these trends and at securing the conditions of development.

The nature of dependence on foreign economic relations, however, is ^{closely related to} ~~a function~~ of the socio-economic system of the given countries. In the capitalist system - even if the state tries to reduce the untoward effects by a certain degree of intervention - the gradual internationalization of economic processes leads to a unilateral dependence to the benefit of the economically stronger countries, ^{respectively} ~~i.e.~~ of the

big international monopolies. The fundamental characteristics of socialist economic relations are equality and mutual economic assistance in the fight for economic growth, for reducing the differences in economic advancement and against the harmful effects of the capitalist world-economic environment.

The gradual internationalization of economic life is shown also by the growing number of problems that can only be solved within global co-operation. Let it suffice to mention just a few of those determining the life of future generations on this globe and requiring therefore an alliance of the forces all over the world:

- the solution of the economic problems of the developing countries, /which will be discussed in detail later/,
- fight against starvation,
- fight against devastating diseases,
- the prevention of the self-destructing pollution of our environment,
- the exploitation of the treasures of the sea bottom,
- the protection and reasonable utilization of the fresh-water resources,
- the economical handling of mineral raw materials.

6. The "crisis" in energy and raw materials is a conspicuous phenomenon of recent years which many an expert would like to ascribe exclusively to the behaviour of the oil-producing countries taking part in OPEC. Thereby they wish to conceal the fact that the economies of the developed capitalist countries rely mainly on the exploitation of these raw materials, that the monopolies still have a hand in a considerable part of exploitation, particularly in the international trade of raw materials, and that these monopolies are responsible for the tendencies that have led to the prodigal utilization of the resources which, after all, are available to mankind in limited quantities. At any rate it is unavoidable to realize that the era of inexpensive energy resources and raw materials has come to an end, and what has happened in this respect is not just certain changes in prices but deep-going structural changes.

7. Another world-economic phenomenon not to be neglected is the confusion in the capitalist financial system which has manifested itself in the evolution of inflation and in the disintegration of the international monetary system. This is another sign of the growing incapacity of the capitalist world economy for maintaining its functional mechanism.

Inflation, which the US - making use of the key currency function of the dollar - has dumped upon the capitalist world to counterbalance its inflated military expenses, can hardly be harnessed and, the joint occurrence of inflation and stagnation, i.e. stagflation - which seemed to be an economic paradox in earlier times - has become daily practice.

8. Under such conditions the capitalist world economy can not much longer ensure the development of international economic relations and will, in the long run, not be able to solve the grave problems that can be observed in world economy, ~~as~~ for instance, such tendencies to polarization as the contradiction between rich and poor, between exploiters and exploited. This, again, goes to show that the entire order of world economy is in bad need of radical changes. The capitalist world economy is again and again bumping into its own contradictions which do not permit the selection of optimum solutions complying with the interests of the entire society. The solution of the problems cropping up is a long-term task.

The fundamental structural contradictions are enhanced by the cyclic overproduction crisis of the capitalist world economy in the last few years.

It is not incidental that, ever since the 1929 crisis, this crisis has brought about the gravest regression and unemployment, on the one hand, and, on the other, it is drawn out in duration and, in spite of a temporary improvement, the capitalist world economy will have difficulties in extracting itself from the crisis.

The deep-going structural changes in world economy mentioned before, the break in the development of the capitalist economic system and the concomitant uncertainty have resulted in a serious instability of the world economy. It is presumably necessary for lengthy processes to take place before this instability disappears and before a world-economic order based on new foundations can evolve.

9. While the world economy in its entirety is struggling with grave problems, the socialist countries continue their development. Between 1971 and 1975 their GDP grew ^{yearly} by 6.2 ~~82%~~ per cent and their industrial output by 7.8 per cent as against corresponding rates of 2.8, resp. 2.7 per cent in the developed capitalist countries. This, of course, does not mean that the economy of socialist countries is left unaffected by various phenomena of world economy, mainly by structural changes, by technical development and the problems of environmental pro-

tection. Nor is the uncertainty in the world market advantageous for socialist countries which undertake joint and, let us add, successful efforts to prevent these factors from breaking their development, from disturbing the steadiness and smoothness of growth.

The share of the socialist countries in world trade is about 10 per cent, a very low figure, in fact much lower than their share in world production. This can be traced back to objective and historical reasons. Here are some of them:

- the Soviet Union has a share of about 70 per cent in the population and the national income of the European CMEA countries, and the role of foreign trade in the Soviet Union is smaller than in ^{minor} ~~some~~ countries since a large part of its economic activities is not reflected in international trade;

- the discriminatory cold-war policy, the embargo of the capitalist countries elicited a kind of economic defence in the socialist countries, and it is not easy to liquidate all its consequences, for many elements of discrimination still persist;

- the colonial powers have always put obstacles to contacts of territories under their control with socialist countries, and their economic influence - which is often exerted in an indirect way /standards,

specialists etc./ - will remain an obstacle to the development of such contacts even when the governments of the relevant developing countries consider their establishment as desirable;

- the international atmosphere unfavourable for the development of foreign economic relations has not stimulated the socialist countries to adopt marketing and other foreign-trade methods that are indispensable in the markets of non-socialist countries;

- in our days, when the political conditions have taken a more favourable turn for evolving international co-operation, the accelerated growth of economic relations is hampered by recessions in the capitalist economy, by increasing protectionism, by the deterioration of the terms of trade and by other factors.

Despite all this the contradiction existing between the high share of the socialist countries in world production and their low share in world trade may be expected gradually to disappear by the growth of this share in the long run.

The unbroken economic development of the socialist countries represents a certain element of stability in the totality of world-economic processes. The re-

cognition of this very fact may have a considerable say in evolving economic relations not restricted merely to the selling and buying of ^{goods} ~~commodities~~ but preferring various forms of long-term co-operation. I should like to stress that each country has to consider the changes in world economy in the course of its internal development and in its international relations, as required by stability, and has to make efforts to stabilize economic life, the international structural economic relations.

II

The Struggle for a New ^{International} Economic World Order

In connection with the global problems influencing world economy I did not dwell upon one of the most important ones, namely, the economic rise of the developing countries because, ^{now} I wish to discuss it in detail in connection with the new ^{international} economic world order.

The reason why this problem is so comprehensive is that the actual order of capitalist world economy is unable to solve the grave problems of the developing countries and to liquidate the horrible consequences of the colonial system whereas the mutual relations of a new type between the socialist countries do not yet exert a decisive effect upon the totality of the world economy. Nevertheless the in-

terests of the socialist and of the developing countries coincide in the long run, and the possible differences in assessing certain questions directly on the agenda may be surmounted. This is the basis and the guarantee for the socialist countries to back up the struggle fought for achieving a new world-economic order.

1. The views on reforming the world economy are often different and undergo a gradual transformation as far as contents and means are concerned. In order to achieve the objectives, i.e. to create a really new world-economic order ensuring the rise of the developing countries, two key-questions are to be solved in my opinion. These have been identified in many a developing country but have not yet acquired the necessary weight in the assessment of the entire complex of questions, a weight they really deserve.

One of the key-questions is to achieve a radical internal social transformation. It is hardly possible to create "a just" order on an international scale if narrow social strata preserve their privileges in developing countries, if the ^{wealth} ~~commodities~~ produced and the burdens of development are distributed in a manner which is not only inequitable morally and socially but economically prevents the

forces of production from developing. The economic difficulties which the most developed capitalist countries also have to face make it more than ever obvious that the developing countries cannot get rid of the contradictions of the monopoly-capitalist society if - as the weaker partner - they wish to follow a similar path. I do not ~~wish~~^{want} to appear as some-one wishing to impose his own social, economic system on others. Every country will chose the road of its own development, though one thing is certain: without social transformation, without a purposeful co-ordination of the national resources all that can be achieved is a temporary development affecting only a narrower layer of society which then inevitably leads to grave economic and social difficulties.

The other key-question is to change the international division of labour evolved in the system of imperialism. It is not enough to declare equality for the citizens, it is necessary to create the preconditions of implementation, nor is it enough for nations to declare that each of them has equal rights to develop; it is necessary to create the practical possibilities for development.

The projects submitted so far for a new order in world economy relie mainly on changing ^{trade} commercial

and financial mechanisms for improving the position of the developing countries. These are of great importance but alone, in themselves, they are not sufficient for liquidating the roots of backwardness. No doubt, ^{many} ~~the~~ developing countries ~~where this is an objective~~ are in need of external financial resources ^{and this} mainly by directing the major part of profits derived from capitalist and neocolonialist exploitation back to where they come from. Yet more important than the regrouping of financial resources are the steps meant to change the production structure of the world, the international division of labour and thus to evolve the new directions of international co-operation. The developing countries have to develop more intensively their forces of production, including human knowledge, to turn out products processed at a higher level and to market them at home as well as abroad. This does not mean that they should not deliver any more raw materials; the Soviet Union and the USA are also important exporters of raw materials. They will have to use their ^{enrichment} ~~riches~~ not only for producing finished goods from their own raw materials but also to use them for manufacturing ^{means} ~~forces~~ of production and ^{evolving} ~~technologies~~ necessary for producing them. At the same time it may seem expedient to meet the demand for other products

~~free~~ through international co-operation. The future division of labour should, consequently, lie to a decreasing extent on the delivery of raw materials by one partner and on the processing and on the delivery of the processed products by the other, but on an exchange of products within which each partner has its share on the basis of different conditions in the relevant country contributing beneficially manufactured products and knowledge.

In connection with the solution of the above two key-questions let me point out that many developing countries are fully aware that the fight for the new ^{international} economic world order is inseparable from the struggle against imperialism. This does not only mean a political struggle for liberating territories that are still dependent but also the creation of conditions of economic co-operation in which the monopolies, the external forces no longer play a dominating role. National sovereignty over natural resources is of great importance in this respect, particularly in cases where - beyond a legal formula - this also means the actual exploitation of these resources, at the service of the implementation of the national development plans.

It is obvious for most developing countries that instinctive market forces are merciless towards the weak and therefore require the creation of such a mechanism of economic relations as would ensure more favourable conditions for them than what they may expect on the basis of their actual position, their world-economic role. The entire system of international capitalist, relying on exploitation, however, makes it impossible (fully) to discard [✓] the spontaneous mechanisms in regulating economic relations between countries and groups of states operating under capitalist economic conditions. All this, in turn, however, does not exclude the possibility of ^{improving} the position, the market possibilities of the developing countries or of limiting the exploitation possibilities of the developed capitalist countries, of their economic organizations and monopolies. The ^{compilation} ~~unification~~ - in one programme - of the demands concerning a new international economic order will, in itself, strengthen the pressure on the imperialist powers. The long struggle that is needed for achieving a new international economic order depends, among other things, on co-operation with socialist countries, on internal economic and social transformations. The national bourgeoisie of the individual countries evidently tries

to make the best of this struggle for consolidating its own position. There is a widely spread naive belief that western concession can bring about fundamental changes in the relationship between countries at different level of development within the capitalist system.

It is obviously quite impossible for the developing countries to alter their position either by turning inwards or exclusively by relying on socialist countries. It follows from the ^{universal character} unity of the world economy that co-operation with developed capitalist countries continues to be of extraordinary importance, yet the preconditions of such co-operation have to be created by the developing countries to exclude capitalist exploitation from these relations.

2. In the course of the fight for a new world-economic order it is necessary to remember that the roots of backwardness can invariably be traced back to one factor, namely to colonial, imperialistic exploitation and that the solution of the above-mentioned two key-questions is equally decisive in all countries, yet there are many - and growing - differences in the situation position of the individual developing countries.

Different views result in different classifications, but relying on a realistic assessment of objec-

tive conditions it is unavoidable to consider separately the development possibilities of ^{at least} the following groups:

- Countries with a small or medium population and a high oil income /e.g. Kuwait/;
- oil-exporting countries having vast internal possibilities /e.g. Algeria/;
- Countries in a favourable geographical position having a diversified economy /e.g. Brazil/;
- Countries ~~importing~~ raw materials and food which are in a difficult position /some African countries, India/.

This grouping can be improved, can be broken down into smaller groups. I do not wish to enter into details now or dwell on the consequences of the differences yet it is not possible to examine the questions of international economic co-operation without being aware of these realities.

^{it is of the actual}
As to the debates carried on for the implementation of a new international economic order, I shall touch upon four of them in the following.

3. Some 45 to 50 per cent of the raw-material resources of the world can be found in developing countries. Although the ^{association} ~~federation~~ of oil-producing developing countries could make its appearance on

the world market as a coercive force, the share of the developing countries in the world output of other raw materials is much lower or else the products can more easily be substituted. Therefore they cannot defend their interest with the same weight as the OPEC countries, even if they were able to overcome the other diversities existing between them. Although their share in extracting other raw materials is less dominant an increasing income from these materials may be considered for their development because:

- the prime cost of raw materials that can be extracted in other countries, from the sea bottom, is rising;
- the production of replacing materials is expensive and requires high investments;
- the demand of developing countries for raw materials is also growing which, on account of transport costs, may permit the achievement of more favourable prices.

They can increase their own cartels to replace the monopoly cartels but rather by using co-operation for breaking the autocracy of the monopolies in marketing, by promoting the development of processing industries

in the developing countries and by diversifying their production, technical and trade relations.

Hungary as a country poor in raw materials is particularly interested in all events affecting the further conditions of trade in them. The fiasco of the raw-material agreements concluded earlier for various raw materials separately explains the endeavour to create a comprehensive system in raw-material trade ensuring higher safety and stability. As a country importing raw materials and pursuing a planned economy we are in favour of a stable system that could replace the unexpected market fluctuations and the uncertainty of supply. In the mutual co-operation among socialist countries a system of co-ordinating plans and prices, damping the effects of sudden changes, has helped the member states of the CMAE to cope with the unfavourable consequences of the world economy.

Yet, when trying to draft a comprehensive raw-material programme many unclarified questions arise, including the extent of the reserve supplies and the type of financing that will be necessary. As shown by co-operation among socialist countries, under suitable economico-political conditions it

is possible to create a stable system complying with the interests of suppliers and utilizers alike without undertaking special burden of stockpiling and financing. True enough, this presupposes co-operation of a new kind. The socialist countries have made joint statements on several occasions, as for instance at the IVth UNCTAD Conference saying: "The practice of concluding bilateral long-term or medium-term contracts within the framework of international commodity contracts is an alternative market-regulating instrument against the creation of the mechanism of stabilization reserves and, in case of need, may be coupled with the utilization of reserves". At any rate it is necessary to evolve a system permitting the individual countries to join it in a manner complying with their own economico-social system, their economic possibilities and interests.

A debate is going on concerning the creation of what is referred to as the price indexing system. The endeavour to prevent the price privileges obtained by developing countries in export from being cancelled by price changes affecting products they import is understandable in itself, yet the question cannot be solved without considering a few - and not so simple - problems.

- One of them is that the constant rise in prices in primarily due to the protracted inflation in the capitalist countries, and this should be the starting point also for the solution;

- The prices of valuable semiproducts suitable for further processing, of finished goods and particularly of the investment goods representing up-to-date technology are manipulated by the big international capitalist companies trying to achieve the extraprofit deriving from the innovation monopoly. Installations exported by these companies rely, in many cases, on labour-saving procedures which the developing countries are not going to need for a long time to come. Consequently, the price rise in contemporary high-capacity production equipment and up-to-date semiproducts is not an unambiguous base of comparison;

- In addition to these, many questions of a technical character, as, for instance, the value-measuring systems of raw materials and finished goods which are hardly comparable, and the deviation of the technical parameters warn us that the actually existing problems cannot be solved without very careful analyses.

4. The increase of the share of the developing countries in the industrial output of the world represents a considerable task, especially if we want to comply with the objective of the UNIDO Lima Conference to raise their actual share of 7 per cent to 25 per cent by the turn of the millenary. Industrialization is not an end in itself but a means for economic and social advance. This, however, can only be achieved if industry promotes the economic independence of the country. This is a condition to be emphasised because a new, neocolonialist division of labour has begun to take shape, one based on the capital export of multinational monopolies and meant to translocate industrial branches not operating economically into developing countries. This endeavour of theirs is independent of whether the industrial branches to be translocated fit into the development concepts of the given countries or not and whether they become establishment operating in a certain isolation from the local economy. The healthy development of the developing countries is promoted only by industries created in keeping with the national interests, relying on, and closely linked with, the internal economic conditions. An essential element in the development of a really national industry

is the existence of conditions which permit - even though at a later date only - the processing of the country's own raw materials, self-reliance in further development /a backward and forward linkage/ as well as the utilization of the accumulated reserves in keeping with social interests.

Relying on this context let us raise a few questions.

- The fundamental aim of industrialization is to promote the development of the countries' own economy and society, that is, to produce the basic means of production and the basic consumer goods necessary to the working masses and to establish export branches possessing firm markets.

- Industry is meant not only to meet the consumer demands of a narrow elite but to provide for the fundamental supply of the popular masses. Although unskilled manpower and land are abundantly available in most developing countries, there is, in most cases, a scarcity of capital, of infrastructure, well trained manpower and materials necessary for production. That is why the investments for the production of fancy goods absorb resources that would have to be used for more important purposes, like developments serving the growth of the entire national economy.

- Nor is it advantageous if a factory to be erected is to operate entirely detached from the internal development conditions, essentially as a foreign investment site. The spare parts are often delivered by the parent company and the marketing of the products is also in its hand. For the developing country such plants only mean the creation of ^{employment} ~~opportunities~~ to work. Endeavours of the government of the given developing country to interfere in the activities of such an enterprise may result in a threat to close down the plant and to dismiss the workers. If, in addition, we realize the financial manoeuvres associated with the activities of such enterprises, there remains hardly any doubt as to the undesirability of this type of industrialization.

There has been much talk lately on what changes ^{geographic} it would be expedient to introduce into the distribution of the industrial output of the world. Here again several viewpoints will have to be considered:

- it would not be fortunate if the shift in the production pattern were to rely merely on what plants the developed countries and their capitalists would want to build in developing countries. The interests of these ^{these} ~~these~~ countries could only be observed if the state were to designate the industries in which the

creation of plants would be desirable in accordance with the comprehensive industrial development plans of the country;

- it is indispensable unanimously to outline the framework within which such plants may operate. The relevant considerations should, for instance, cover the extent to which foreigners are allowed to acquire property, to export their profit or to withdraw capital at some later date. It is expedient to judge these questions by assessing whether the given industrial co-operation or industrial translocation is likely to increase the dependence of the developing country or, on the other hand, may contribute to the planned development of the economy and thereby to the consolidation of the country's economic independence;

- the developing countries shall endeavour to acquire intellectual products enabling them to promote technological development, market activities and to liquidate their dependence also in this respect.

5. It is still an unresolved problem how to achieve the necessary harmony between industrialization and the development of agriculture. The raising of the level of agricultural production is an indispensable condition for achieving economic independence

and a satisfactory food supply for the population. The question is not to develop either industry or agriculture but to create a harmonious and complementary development of the two. Failing this we shall have to face a distortion of the economic structure and the appearance of new tensions.

The backwardness of agriculture exposes the country to the mercy of countries possessing food surplus. It is therefore important carefully to observe the directions in which agriculture is to be developed. In most cases it is evident that updating requires social changes, too. There are certain endeavours, however, wishing to direct this transformation towards evolving capitalist peasant farms. This is a dangerous road for developing countries because such farms will either not be able to ensure a substantial growth in production /if they persist in the small-scale production methods/ or will draw away tremendous capital from other tasks and increase labour redundancy /in the case of capitalist farms/. Thus the only reasonable road seems to be based on the individual interests of the peasants yet not without ensuring purposeful co-operation to achieve higher yields, to apply up-to-date methods and not releasing manpower sooner than employment possibilities are created in other branches of the economy..

6. The collapse of the international financial system that had evolved after the Second World War has caused great concern as to the functioning of the entire world economy, and this is by no means indifferent for the socialist countries either. A lasting new order cannot evolve without taking into account the interests of both socialist and developing countries. It is also evident that the new order will have to display an elasticity and liquidity to an extent that will satisfy development requirements. The functioning of such a system cannot rely on the currency of one single country, and all countries will have to have a say in the management.

As to the international flow of monetary resources, some believe that the socialist countries will have a small share in it. These countries are known to have justly stressed that the responsibility for the backwardness of the developing countries lies with the colonial powers and not with the socialist countries. Beside this fundamental correlation, let me point out some others:

- Although the socialist countries do not, in general, undertake financial obligations on the basis of resolutions taken by international organizations, in practice they extend considerable assistance to

developing countries. In this respect let us not forget the assistance given to such socialist developing countries as Cuba, Mongolia, Vietnam etc. and the fact that the relevant data are usually not included in western sources.

- It is not reasonable to assess assistance merely by its size; the decisive question is whether or not the available monetary sources promote the economic independence of the country. The various scandals of recent years also justify this distinction. It is economically not indifferent whether or not the resources made available through various international channels, the various operations within international economic co-operation promote the economic dependence of the developing countries. Nobody is likely to doubt that the operations performed between the socialist and the developing countries are aimed at strengthening the economic independence of the latter. This statement obviously does not apply to the capitalist countries since a great part of the agreements concluded between capitalist companies increase the dependence of the developing countries. This becomes evident partly from the areas to which they direct their new investments /for instance, to secure raw materials flowing into capitalist countries/ and partly from

the financial conditions which are to strengthen the position of foreign capital in the given country.

- The various monetary sources provided by developed capitalist countries ensure the reflux of profit into these countries. The capital, profit and interest flowing back from Latin America to the United States, for instance, is higher than the flow of capital in the opposite direction. This is one more example to show how misleading it is to examine only the capital flow from the capitalist countries towards the developing ones, and how important it is to study also the reflux, if we wish to obtain a correct picture of reality. Most of the oil dollars flow ^{also} back into the developed capitalist countries.

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I have in the foregoing mentioned a few reasons why the socialist countries refuse being treated like the developed capitalist countries in more than one respect. Let me add that in this field eyewash and the emphasis on joint responsibility are extremely dangerous for the developing countries. If we believe that it is sufficient for the developed countries to make concessions concerning their ^{achieved economic} standard and to regroup means into

developing countries, this would only solve the problems of one or two developing countries but not the fundamental contradictions of the world economy and would create new contradictions instead of the old ones. One of the basic question is whether the developing countries, themselves, will create the internal conditions which are necessary for launching rapid development and for which a really new economic world order would be a support. The internal progress of the developing countries will, to no small extent, determine whether relations based on equality, on the liquidation of backwardness are going to spread in the world economy or the capitalist monopolies will continue to dictate the direction of international co-operation. The other concomitant problem is in what manner and with what dynamics could a new conception of a comprehensive international division of labour be put on the agenda, a conception radically breaking away from the division of labour as evolved in the system of imperialism and ensuring a place for the developing countries which they deserve in world economy.

III. World-Economic Changes and Hungary

1. The changes taking place in world economy affect also Hungary's economy to no small extent. Hungary is a small country with a population of about one-third of Egypt's population and a territory not more than one tenth of that country, and is situated far from the seas. A semifeudal system of large estates was predominant before 1945 with agriculture yielding more than half of the national income.

Hungary is heavily dependent on foreign trade. Today one-third of the products used at home comes from abroad, and about 30 per cent of this amount consists of products that cannot be manufactured in the Hungarian national economy on account of geological or climatic reasons. At the same time the value of exports come also close to one-third of total production. The changes that have taken place in world economy have resulted for Hungary in a substantial deterioration of the terms of trade, consequently, today we need about 20 per cent more export to counterbalance the same volume to imports as, for instance, in 1972.

One of the most important consequences that can be drawn from changes in world economy for Hungary's economy is the necessity of transforming the internal economic pattern at a quicker rate. Hungary - like

the majority of the COMECON countries - has just recently come into the position where the reserves of extensive development have become exhausted, like available free labour, land, capital, unused industrial capacities. The fact that the necessity of changing direction required by internal economic conditions, i.e. the need of embarking upon the road of an intensive type of development, coincides with the transformation of the international economic environment renders the fulfilment of this task rather difficult in more than one respect. A confrontation with the changed world-economic situation has intensified some problems of Hungary's economy just as much as that of some other countries. If, however, we succeed in creating the preconditions of these changes, we shall find it advantageous to evolve a new, up-to-date economic structure with due regard to both internal and world-economic problems simultaneously. When shaping this new economic structure it must not be forgotten that the fundamental energy carriers, the raw materials and the branches producing staple food, as well as the processing activities in the vanguard of technical development will be held in a preferential esteem on the world market.

In the past quarter of a century industrial production in Hungary has shown a rapid growth; it is

7.4 times higher today than it was in 1950, yet the pattern of industrial production needs updating. In this respect we have to observe the following tendencies:

- The demand of the Hungarian national economy for raw materials compared to the growth of production should increase at a lower rate than up to now. The aim should be to introduce ^{more sophisticated} labour of ~~higher value~~ into the processing of raw materials and to be able to realize high-quality products manufactured with high productivity for international relations.

- Selective policy should be pursued in developing production, concentrating forces on branches where our endowments are the most favourable and encouraging mainly such progressive production cultures as are already available in Hungary or can be raised to an up-to-date level at a relatively rapid rate and without financial sacrifices exceeding the ^{resources} ~~forces~~ of the country.

- The selective development of production naturally involves a certain increase in import in some fields since the population and production alike require a growing assortment of products, wherein ^{the} international division of labour and imports will have to play a greater role.

2. Co-operation within the CMEA /Council of Mutual Economic ^{Assistance} Aid/ plays an outstanding part in Hungary's foreign economic relations. I wish to stress that the CMEA is not a supranational institution but an international organization permitting a many-sided and planned ~~co~~-operation of the member countries based on mutually recognized equality. This system based on the mutual co-ordination of plans and on the synchronization of the five-year deliveries ensures a safety for Hungary both in her supply with raw materials and in the availability of a market necessary for economically efficient production. The multilateral agreement of the socialist countries has a damping and retarding effect on the price fluctuations coming from the world market, permitting our economy to prepare for meeting their effects. Beside, our geographical endowments and position suggest, as a best possibility, the acquisition of raw materials mainly from socialist countries. At the same time the commodity turnover between the CMEA countries clearly shows the actual stage of development of the Hungarian national economy since a decisive part of our exports consists of products of the machine industry and of other processing industries. The trend is that up-to-date industrial products acquire a growing importance on all sides

of commodity turnover. This objective is promoted by a further extension of specialization among the CMEA countries.

The CMEA has not been created to restrict external relations but is an open organization wishing to expand economic co-operation also with other countries.

Therefore our active participation in the CMEA contributes also to the development of economic relations with non-member countries. This, naturally, applies to Yugoslavia in the first place, a country taking part in almost every organ of the CMEA, and also to other countries having concluded agreements with CMEA. Such countries are Finland, Iraq, Mexico, and many other developing countries have displayed interest in signing such agreements.

3. The growth of East-West economic relations is also extraordinary important for Hungary.

Western Europe is a traditional market of some of Hungary's products - mainly those of the food industry. Today we can no longer rest satisfied with these commodities dominating our export and therefore we wish to increase the share of products of the processing industry in our export.

I do not want to insist now on the importance - for Hungary - of the expansion of relations with developed capitalist countries but I should rather

like to discuss what the favourable turns in the East-West economic relations, i.e. those between socialist and developed capitalist countries, mean for the world economy and particularly for the developing countries.

- The intensification of East-West trade in the past decade has been made possible by an atmosphere of détente in international life. The evolution of these relations, on the other hand, considerably has affected the détente, itself. Political tension absorbs enormous energies which could otherwise be used for solving the most outstanding problems of world economy. If détente extends also over the field of armaments, then part of the energies released - as is explained in the Soviet proposal submitted to UN - can be utilized for helping developing countries. Another part thereof would serve this goal by being used by countries having reduced armament expenditures for the improvement of their own economies, which would result in advantages for developing countries in the form of growing markets as well as by solving global problems concerning all mankind.

- By contributing to a more rapid economic development of the socialist countries, East-West co-operation also encourages the socialist countries

to raise their demand for goods the developing countries can export, whether raw materials or agricultural and industrial commodities meeting the growing demand of the population in consumption.

- The relations evolving between the enterprises of socialist and of developed capitalist countries make it possible for them jointly to co-operate in promoting the development conceptions of developing countries. Such a ^{participative} ~~trilateral~~ co-operation is ~~useful~~ also for the developing countries since the activities of the socialist countries are often hampered by the lack of capital necessary for the developing countries, on the one hand, and, on the other, the participation of socialist countries in co-operation represents a kind of guarantee against the monopolistic endeavours of the capitalist enterprises.

- The expansion of East-West relations, the détente enhances safety in economic relations. If Hungary, for instance, wishes to discontinue the manufacture of certain products, she needs guarantees that supply in these products will remain undisturbed for a long time to come.

- Détente also favours the diversification of the relations of developing countries. In the at-

mosphere of the cold war it often happened that an expansion of economic relations of developing countries with socialist countries elicited retaliation by the imperialist powers.

All this goes to show that the improvement of East-West economic relations is in keeping with the interests of the developing countries and with the intention of the socialist countries to strengthen their economic ties with all parts of the world.

4. In the economic relations with developing countries we proceed from the desire that the elements of mutual advantages and of our assistance given to
developing countries should ^{assert} ~~assert~~ themselves si-
multaneously. The principle of mutual advantages is the only realistic basis for any kind of rational economic co-operation and cannot be abandoned because it is the main guarantee of all parties being interested in co-operation and taking the necessary steps in the required direction. The principle of mutual advantages, naturally, does not necessarily mean that the extent of advantages granted and obtained is invariably identical.

In our relations we do not disregard the fundamental problems with which the developing countries are coping. In addition to mutual advantages, the

● observation of the elements of assistance makes it necessary to implement new types of principles. Some of these are as follows:

- our relations are exempt of political conditions;
- we wish to contribute to the consolidation of economic independence of the developing countries; in fields which are important for the development of their national economies we do our best to realize deliveries; we try to consider the requirements of the national development programme of the developing countries; we promote the construction of establishments whose creation the monopoly capital would like to prevent;
- we assist the state and the co-operative sectors of the economy;
- as far as our possibilities go, we grant credits, sometimes aids in minor volumes free of charge;
- we run wide-scale technical-assistance programmes; we send a growing number of Hungarian experts and instructors to developing countries, and the number of specialist obtaining training in Hungary is also considerable;
- in our relations we do not try to achieve monopoly in knowledge but rather, by teaching ex-

perts and establishing various institutes we help the developing countries in their technical development;

- we are trying to repurchase products coming from developing countries; earlier this was done under clearing agreements permitting the payments to be effected in products and not in free currencies. Life has in many cases - as also in the case of Egypt - gone beyond the form which was mutually advantageous at the initial stage. Even in free-currency deals we endeavour to use the currency thus produced for buying commodities coming from developing countries; for more than 600 customs tariff rates Hungary grants preferential reductions to developing countries;
- beside the raw and basic materials, consumer goods from different developing countries are playing a growing part in our commodity turnover.

5. Before the Second World War, or more precisely prior to Hungary's turning into a socialist country, we had hardly any contacts with developing countries; our relations started a sporadic and slow development as late as in the fifties.

Foreign trade between Hungary and the developing countries grew about five-fold between 1950 and 1970.

Between 1971 and 1975 the average annual growth of the total turnover was 16 per cent, a rate much higher than in any other trade relations. Nevertheless there are two problems to be mentioned. One is that turnover shows heavy fluctuations from year to year, the other is that the share of the developing countries in Hungary's foreign trade is still not more than about 7 per cent. Although various historical and geographic reasons offer an objective explanation to a certain extent, we consider this share as too low and are not satisfied with it. We believe that the past, the traditions of the division of labour evolved in the capitalist world economy still exert a certain influence on these relations.

The size of our country will not permit us to develop closer relations with a greater number of developing countries. Fourteen countries make up 80 per cent of our foreign-trade turnover with developing countries, an amount which is likely to be divided among ^{somewhat} more countries in the future. For various reasons the Middle East, including Egypt will probably continue to play an important role in the evolution of our trade relations but their expansion will obviously be affected by the differentiation going on among the developing countries as well as by the

growing number of developing countries concluding agreements with the CMEA countries.

The commodity pattern of the turnover is also going to change. Although the export of machines and complete installations constitute already close to 40 percent of our export to developing countries, their weight will continue to grow. In areas important for the development of the developing countries we try to make our enterprises capable of delivering complete plants ready for operation, production or service systems including the training of the staff and co-operation in the operation, maintenance and further development of the plants. We consider such deliveries particularly in the fields of contemporary agricultural production systems and food processing, water management and public health, as well as educational systems, but other fields may also be taken into account, like

- energetic equipment,
- vacuum-technical machines,
- public vehicles and railroad carriages,
- telecommunication systems

exported in a state ready for operation.

In countries where industrialization has attained a higher level we shall try to organize the manufacture of complicated products under co-operation.

Up to now more than, 110 projects have been completed in developing countries with Hungarian co-operation and deliveries, including 40 agricultural and food-producing ones /plants producing agricultural machines, food-processing plants, chicken farms etc./, 30 water-purifying and water-supplying and energy-producing plants.

Where mixed enterprises are established, the project is usually initiated and proposed by the developing country. It is characteristic also of these cases that the share of Hungary in the property is not determined by intentions of making profit but partly by the necessity of adapting oneself to local conditions and partly by the desire of the partner country to take ^{our} share in the risks involved. In such cases we try to enable our partners to take over the management of the plant and well as the Hungarian share in it. In fact in many cases the contract itself stipulates such a procedure.

In our import activities we try to eliminate mediatory trade where this still exists. This often requires the improvement of the export organizations of the developing countries but co-operation may be conceived in this respect, too. The share of raw materials - owing to the circumstances governing the Hungarian economy - will continue to be high, although

the importance of precessed products will evidently increase. This trend is shown e.g. by the fact that the value of manufactured consumer products has, in the past ten years, risen by 8.5 times in our import from developing countries.

In transforming our own production pattern we try to co-ordinate this with the endeavours of the developing countries so as to promote - by increasing our acquisitions from developing countries - the production of various industrial goods within the industrialization programme of the countries affected. Examples of this endeavour of ours may be found also in Egypt; let us consider the delivery of plants of the ready-to-wear industry for which the Hungarian enterprises have not only delivered the producing apparatuses but also participated in the training of the staff and now import part of the finished products.

6. Amidst the considerable instability of the world economy Hungary is doing her best to build her international economic relations on possibly stable foundations and thereby to promote her economic development in the long run. This is best ensured in the mutual relations of the CMEA countries which are based on the co-ordination of long-term plans and on long-term foreign-trade agreements signed for five years. But we are interested in the stabilization of our relations in other respects, too. We are,

therefore, partisans of concluding long-term agreements based on mutual interests in a sphere as wide as possible. These will guarantee the certainty of deliveries, their quality and the acceptance of the products which are delivered as payments for the products delivered by the other party. In co-operation - even if it does not rely on compensation contracts - it is the interest of all parties to secure the long-term balance of the relations.

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In ~~my~~ lecture I have discussed three problems: changes in the world economy, the new world-economic order and, in this connection, some problems of the Hungarian economy. I have tried to make it clear that radical changes have become inevitable in the whole system of the world economy. One of the most important ones is the improvement of the position of the developing countries, the establishment of just economic relations based on equality. The achievement of full equality of rights, the total liquidation of exploitation by monopolies ^{evidently} ~~naturally~~ contradict the nature of imperialism. We must, therefore, be ready for a long and obstinate struggle since the gap between the developing and the developed countries will continue to widen. Neither the first development decade, i.e. the sixties, nor the second decade has solved the

problems or has eased the cares of the Third World, and it has become quite clear that they cannot be solved without an entirely new approach to the question. The transformation of the relations promises success mainly for such countries as will be able to achieve the conditions of equality on the basis of internal economic-social development, irrespective of the imperialist world-economic system. In their international economic relations the socialist countries do their best to contribute to the achievement of these objectives.