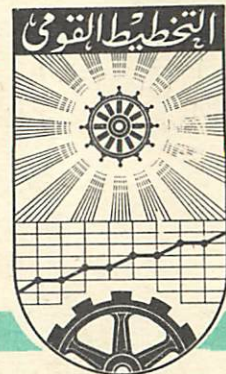


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Economic Integration And Foreign
Trade-The Case of CMEA

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Introduction

Increasing internationalization of the economic life is one of the phenomena of the development in the second half of this century; growth rates of foreign trade, exceeding by far growth rates of national income and of industrial and agricultural production, and the establishment of integrating communities among groups of socialist countries, western countries and developing countries are an expression of this tendency.

This paper investigates some aspects of the manifold interrelations between foreign trade and economic integration in the case of CMEA, starting from the thesis that in addition to some general tendencies, which are more or less independent from the existing socio-economic conditions, economic integration and foreign trade and their interrelations are determined largely by the prevailing political and economic relations in the countries concerned.

For the Third World Countries, economic integration in connection with using the advantages of worldwide international trade is of great importance and in many cases a necessary precondition for successfully improving the structure and the efficiency of the national economy. According

to the concept of "collective self-reliance" such a strategy will lead to a certain international specialization and cooperation of production and a higher share of imports and exports among these integrating groups of developing countries (1).

Thus developing countries might be interested in comparative studies in this field and in some experiences of CMEA countries.

(1) Types of economic integration and consequences in principle for foreign trade:

It follows from the very nature of economic integration that the development of the volume, commodity structure and regional structure of export and import of any member country of such a community will be influenced to a high degree by the various economic activities and the organizational and institutional regulations of the process of integration as a whole. At the same time we have to take into consideration the differences as regards the relation between integration and foreign trade resulting from the various types of economic integration (depending upon the prevailing socio-economic conditions in the member countries concerned) and from the current stage in the historical process of integration in the frame of a certain type.

As to the types of economic integration, in the Western economic literature we find above all the distinction as follows:

- trade approach (freeing of barriers to trade);
- factor integration (liberalization of factor movements);

- policy integration (harmonization of national economic policies);
- full integration (complete unification of these policies) (2) .

These definitions are obviously an attempt of characterizing the various stages of integration from its lowest to its highest forms under conditions of a free-market mechanism in Western economies. They do not apply to the special conditions of socialist and of developing countries and they are criticised too from some Western economists on the grounds that they do not reflect the considerable degree of state intervention in present-day market economies (3) .

The Hungarian economist I. Vajda introduced the distinction between "market integration" and "production and development integration". The former is defined as "the guarantee of unhindered sale of each other's products within the framework of the social system of participating countries" while the latter is said to involve "raising to an integrational level and programming the production of those branches of industry which cannot be developed to an optimum size within national limits" (4) .

Though this distinction seems to simplify and underestimate the role of the market in socialist integrating communities, it

characterises in any case the difference as regards the integration process among West/^{European} countries (EEC) and socialist countries (CMEA) in general and as to the interrelation between integration and foreign trade in particular.

Economic integration among EEC countries aimed from the very beginning mainly at establishing a common market by reducing or abolishing quantitative restrictions and tariffs on intra-area trade and by introducing a common tariff on extra-area imports. Thus trade creation among member countries and trade diversion (e.g. in the case of foodstuffs, chemicals and simple manufactured goods) caused by the discrimination against imports from nonmember countries played a predominant role in this integrating bloc. At the same time, relatively little progress has been made in regard to "production and development integration" especially in the (5) field of technologically sophisticated industries .

In the case of CMEA, during the first stage of economic cooperation (until the end of the fifties) foreign trade was the main form of intra-area economic relations too, leading to a high share of intra-area trade (see table 4) and to a certain degree of specialization of production through bilateral foreign trade agreements. Since the early sixties

the international division of labour among CMEA countries is determined more and more by international cooperation in planning and by multilateral and bilateral agreements on cooperation in the field of production, including scientific - technical and investments cooperation. Hence it follows that this type of integration is aimed above all at promoting the creation of optimal structures of production in the countries concerned by international specialization and cooperation. Thus the development of the volume and structure of foreign trade results more and more from long-term decisions on international cooperation of production.

In the case of establishing economic integrating blocs between groups of developing countries, this problem as regards the type of integration will be of importance, too, from the very beginning. Up to now, most publications on this subject apply only to the type of "market integration".⁽⁶⁾

(11) Bases and main characteristics of foreign trade in CMEA countries and their effects on economic integration:

According to its complementary and its substitutive function the foreign trade of any country aims at:

- changing and rectifying the structure of the national economy in such a way that the necessary proportions between the

different spheres, branches and commodities of the national economy as a whole may be realized and,

- improving the efficiency of the production and increasing the national income.

Both tasks are interrelated closely and are connected with the general aim of realizing comparative advantages (or cost differences) through international division of labour.

The realization of these principal functions or objectives of foreign trade and the choice of appropriate methods and instruments will differ according to the existing socio-economic conditions within the countries concerned and - under conditions of economic integration - will depend on the type of integration.

In the case of CMEA exports and imports of the member countries are conducted:

- on the basis and within the framework of national economic planning and;
- according to the principles and regulations of the foreign trade state monopoly.

This includes the intra-area trade among CMEA countries and influences to a high extent the economic relations, the

type and the mechanism of integration (e.g. there exists no common market in the sense of EEC). G. Haberler and some other Western economists take the view that these conditions might lead to inefficiency in foreign trade and will have negative effects on achieving comparative advantages in socialist economic integration⁽⁷⁾.

On the contrary, it can be shown that these special conditions of interrelations between foreign trade and economic integration enable the CMEA countries in principle to use the advantages of international division of labour in a very efficient way⁽⁸⁾. Results in this field depend to a high extent on the quality of:

- planning on all levels and in all branches of the national economy,
- the system of international cooperation in planning and the agreements on foreign trade,
- methods of management at the national economy level including the application of economic categories like prices, exchange rates etc..

At present there are discussions and proposals in CMEA countries to improve further the existing conditions,

e.g. in the field of:

- formation and changes of internal prices and of clearing prices in the inter-area foreign trade,
- methods of calculation of the efficiency of projects of economic integration and of foreign economic relations in general.

(111) Industrial cooperation among CMEA countries and interrelations to foreign trade

According to the type of "production and development integration" cooperation in the field of production, including scientific-technical and investments cooperation, is going to become more and more the core of economic integration among CMEA countries. This development leads among other things to a system of comprehensive foreign economic relations between these countries with far reaching influence on the structure of their national economies as a whole and on the volume and structure of their exports and imports with non-member countries as well. In conformity with the high degree of import and export dependency of most of the East European socialist countries (with the exception of the USSR) and with the leading role of the industry in their national economies the specialization and

cooperation in industrial production and their interrelations to foreign trade are of special importance in this connection.

In the following we shall concentrate on some selected aspects and problems of these interrelations:

- 1) Specialization and cooperation in industrial production is aimed above all at concentrating and specializing the production of certain commodities in the member countries of an integrating community in such a way that best results will be achieved as regards optimal serieses of production, leading to low costs and a high quality of products and matching the demands of the markets of the countries concerned and of exports to third countries.

Exports and imports resulting from long-term and stable agreements on industrial cooperation, especially in the field of machine building industry, must meet the requirements of the production process in the partner countries concerned to a higher extent than deliveries to "normal" foreign trade transactions as there is in many cases no possibility of getting specialised goods (e.g. parts or sub-assemblies for a special machine) from other foreign markets. Hence it follows that a certain level and structure of industrialization must be reached in all the participating

countries of an integrating bloc.

In the case of CMEA the starting conditions for industrial cooperation between the member countries were relatively unfavourable and much worse than in the EEC. Resulting from the historical development in the past the situation was characterized by:

- great differences as to the role and level of the industry in the national economies. Unlike such highly developed industrialized countries like Czechoslovakia and the GDR, some other countries like Bulgaria, Romania, Hungary and Poland were characterized by a predominantly agrarian structure of the national economy;
- a low degree of mutual connections between their national economies and accordingly a low share of the intra-
(9)
area trade in the total foreign trade of these countries .

Thus two main conclusions had to be drawn:

- a. Evening out the economic development levels of the individual member countries was one of the main purposes from the early beginning of economic cooperation.

- b. Different strategies of industrial cooperation had to be chosen according to the concrete national conditions and they had to be changed again depending on the reached results in certain stages of the historical development. Whereas in some cases countries were striving for a concentration of industrial production and a reduction of the broad list of production and export, the diversification of production and of the commodity structure of export was an essential aim of the formerly less developed countries.

Some results of this policy can be shown by the following tables:

Table 1: Production of electrical power per capita in European CMEA countries (Kilowatt hours)

	1950	1960	1970	1975
Bulgaria	110	592	2.298	2.893
Hungary	322	763	1.408	1.941
G.D.R.	1.059	2.338	3.966	5.015
Poland	380	987	1.984	2.847
Romania	130	416	1.733	2.528
USSR	507	1.364	3.052	4.083
Czechoslovakia	749	1.791	3.151	4.014
Relation between the lowest and the highest figure.	1:9,6	1:5,6	1:2,8	1:2,6

Source: Statistical yearbook of CMEA 1976, p.115.

Table two: Production of steel per capita in European CMEA countries (Kilogram)

	1960	1965	1970	1975
Bulgaria	322	722	2122	2601
Hungary	1899	2488	3011	3488
GDR	2189	2538	2968	3844
Poland	2255	2899	3633	4411
Romania	988	1800	3222	4499
USSR	3055	3944	4777	5566
Czechoslovakia	4465	6077	8011	9700
Relation between the lowest and the higher figure	1:15,5	1:8,4	1:3,8	1:3,7

Source: Statistical yearbook of CMEA 1976, p.116.

Table Three: The share of selected groups of commodities in the total export of European CMEA countries (percentage).

	Machinery plants and means of transport		Raw materials and agricultural products	
	1950	1975	1950	1975
Bulgaria	-	40,7	96,3	41,6
Hungary	23	36,9	34,1	37,1
GDR	48,2	50,7	35,8*	21,2
Poland	7,7	39,0	75,6	39,6
Romania	4,2	25,3	88,4	44,9
USSR	11,8	18,7**	55,7	62,4**
Czechoslovakia	26,4	48,0	46,2	26,5

Source: Statistical yearbooks of CMEA.

*) 1960

**) As regards the export structure of the Soviet Union, we have to consider the special role as the main producer and exporter of fuels and raw materials, above all to the other CMEA countries.

New and special problems in the fields of evening out the economic development levels and industrial cooperation have to be solved following the CMEA membership of countries like Mongolia, Cuba, Vietnam.

- 2) The effects of international industrial cooperation on foreign trade - and vice versa - should be investigated according to the various kinds of this cooperation (10) which can be defined as follows:
- a- Specialization in final products of certain branches;
 - b- specialization in the construction and export of certain industrial plants or machine systems (i.e. set of machines which are linked together according to a technological process);
 - c- specialization in some types of the assortment of products within a group of commodities;
 - d- specialization in certain technological operations as parts of a production process;
 - e- specialization in some parts or sub-assemblies in connection with international cooperation in manufacturing machines or machine systems.

The case a means actually establishing some leading industrial branches within the structure of the national economy as regards production and export, resulting in many cases in high export rates of these branches ranging from 60% to 90% (e.g. the shipbuilding industry in Poland, pharmaceutical industry in Hungary, precision engineering in the GDR etc.) In these cases the countries concerned are delivering in general a relatively comprehensive assortment of export goods of these branches (but see the connection with case c).

Specialization according to case b) has some similarities with the aforementioned kind. But the construction and export of complete plants requires the cooperation between several branches of the national economy. Typical examples for this kind of international industrial cooperation are the specialization of the USSR in the export of coal or nuclear power stations and of steel mills, of Poland in the export of plants for the production of sugar or sulphuric acid, of Hungary on the export of complete broiler (chicken) breeding stations etc.

Greatest progress up to now has been achieved in specializing in the production and export of special types of final

products aimed at reducing the assortment of producing certain machines or other goods and reaching optimum serieses, a high quality and low costs of production (case c). Dependent upon the needs of the markets of the CMEA area as a whole the production of these specialised types was concentrated only in one country or in two or more countries. The commodity structure of mutual exports and imports of CMEA countries, above all in the field of mechanical engineering, is influenced by this kind of industrial specialization to a high degree. In the field of ball-bearing industry the specialization embraces up to now 2.600 types out of a production assortment of about 4.000 various types. The production of 2.100 of these goods is concentrated now in one country only, leading to economic serieses of production in each of the countries concerned and to high export and import rates as well.

Industrial cooperation according to case d) is limited to some groups of commodities where certain raw materials or intermediate products are sent to another country for a special technological processing. An outstanding example in this field is the cooperation between Hungary and the Soviet Union in the production of aluminium, where only one stage of the whole production process - the utmost energy intensive

electrolysis of Hungarian argillaceous earth - is carried out in the Soviet Union. Other examples are the technological specialization between the USSR and Hungary or between Czechoslovakia and the GDR in the process of producing certain types of olefine.

A specialised production of parts and sub-assemblies in different countries connected with a joint production of the finished machines between two or more countries according to case e) is getting more and more importance in industrial cooperation among CMEA countries. Practical experiences, above all in the production of agricultural machines, buses and trucks, led to the conclusion that the possibilities of improving the efficiency of production by concentrating and rationalizing the production process are extremely high when applying this modern kind of international division of labour. For the next future this type of specialization and cooperation is supposed to play an utmost important role in realizing the programme of extending the joint production of nuclear power stations, influencing to a certain extent the volume and commodity structure of mutual exports and imports.

- 3) An increasing share of the total intra-area trade between CMEA countries, especially in the fields of machinery and chemical products, is carried out on the basis of agreements on industrial cooperation. At the time being the coefficient of specialization (i.e. the relation between deliveries based on such agreements and the total export to other CMEA countries) for machinery (including equipment and means of transport) amounts to more than 40%, in some groups of machines to about 70%. In addition to a great number of bilateral agreements, the CMEA countries concluded up to the end of 1977 about 80 multilateral agreements on specialization and cooperation in the production of machinery embracing more than 8.000 products.

These long-term agreements on industrial cooperation are now a decisive factor for the dynamic and stable development of the mutual foreign trade as a whole. They were and are further promoting the increasing share of machines and other finished products in the total export and import and have positive effects on the efficiency of the production and of foreign trade as well. At the same time, some difficult problems are not yet solved satisfactorily and are under discussion with sometimes differing or controversial opinions, as for instance in the following cases:

- a. How to determine an optimal relation between establishing a complex national economy including all the basic industrial branches in each member country of the integrating community on the one hand and specializing in some selected branches giving best possibilities for achieving an especially high standard of production of these groups of commodities as to quality, efficiency and the competitive role on the world markets on the other hand ⁽¹²⁾ ?
- b. Another problem concerns the relation of international specialization of production between various branches or groups of commodities and within them. This problem is linked closely with the question whether the individual countries are concentrating on the production and export of some final products - above all in the field of machinery and equipment-the processing of which is organized in full responsibility by the respective country, or if industrial cooperation is aimed in the first line at arranging a specialized production, export and import of parts and sub-assemblies in different countries connected with a joint production of the final products between two or more countries ⁽¹³⁾ .

- c. As a basis for decisions in this field the question has to be answered how to value various possible variants of international specialization and cooperation of production. This problem must be seen both from the point of view of the individual country and from the international level, including all those partners in various countries involved in a certain project (14) .
- d. The afore mentioned question is linked closely with the problem of price formation for exports and imports resulting from industrial cooperation. There exist different opinions as regards the question whether the intra-area trade of these goods should be carried out according to the general principles of CMEA contract prices (i.e. on the basis of average world market prices of a previous period) or on the basis of the actual costs of production on the countries involved in such a project (15) .
- e. Socialist economic integration among CMEA countries is in any case an integral part of the world-wide economic cooperation of the member countries concerned. Thus we have to investigate the problem of interrelations between industrial cooperation among CMEA countries and foreign economic relations to non-member countries, above all

with the countries of the Third World. Some of these questions will be answered in the next section of this paper.

(1V) Socialist economic integration and foreign trade
with non-member countries

Determining the relation between intra-area trade and foreign trade with non-member countries or between "trade-diversion" and "trade creation" resulting from the respective integration policy is a general problem for each integration community.

In the case of East-European socialist countries economic cooperation between them at the end of the forties and the beginning of the fifties (the CMEA was founded in 1949) was characterized by a rapid increase in the share of intra-area trade, i.e. a kind of "trade diversion". This was due to the fact that in the pre-war-time the level of mutual foreign trade between these countries was extremely low, whereas the political and economic conditions during the first years after the second world war created the possibility and the necessity as well for essential changes of the regional structure of the foreign trade of this group of countries.

(16)

After reaching a certain share of intra-area trade during the fifties, the following period can be described in this respect as "trade creation" with considerable growth rates of foreign trade with non-member countries as well.

Table 4: Regional structure of the foreign trade of the CMEA countries to various groups of countries (percentages).

	1960	1970	1975
Intra- trade of CMEA countries	60,0	60,7	65,4
Other socialist countries	12,0	6,4*	4,0
Developing countries	7,6	9,1	9,6
Developed capitalist countries	20,4	23,8	30,0

Source: Statistical yearbook of CMEA.

* The considerable decline of the share of other socialist countries was caused by the new tendencies in China's foreign trade policy since the early sixties.

There are some special factors determining or influencing the foreign trade between CMEA countries and other countries outside this community, differing considerably from the respective conditions in EEC, above all the following ones:

- Comprehensive national economic planning of CMEA countries includes the main directions of foreign trade with third

countries as to the volume, commodity-and regional structure;

- there exists no common customs border around the CMEA community;
- foreign trade policy including the conclusion of trade agreements with other countries on governmental level is determined by the individual member countries and not by supranational organs of the community;
- the existing socio-economic conditions create favourable possibilities for protecting the national economies of CMEA countries against the "import" of capitalist (17) inflation and crises.

In the following we shall concentrate on some selected problems of interrelations between socialist economic integration and foreign trade with third countries:

1. As we mentioned before, the commodity structure of the intra-area trade is determined more and more by long-term agreements of industrial cooperation in various kinds, especially in the field of machinery and other finished products. Experiences during the past years showed that this positive trend was accompanied with two negative effects which are to a certain degree connected with each other:

- a) In some cases of specialization of production between two or more CMEA countries the requirements of foreign economic relations with third countries were neglected, causing certain difficulties above all in the field of export;
- b) there exist at the time being two different export-structures of some CMEA countries, characterized in the first line by a high share of machinery in their total exports to other CMEA countries and by a low share of these commodities in their exports to developed capitalist countries with bad effects on the concentration of production and the efficiency of production and export.
(18)

In new agreements on specialization and cooperation of production possible effects on export and import with third countries are an essential part of comprehensive calculations in the procedure of preparing necessary decisions for such integration projects. At the same time, great efforts are being made to improve marketing activities for the export of machines and equipment on the markets of third countries.

2. Another problem is related to growth rates and balancing of export and import of CMEA countries with developing countries and developed capitalist countries under conditions of socialist economic integration. In addition to table 4 the following table shows the respective development during the seventies.

Table 5: Balance of trade of European CMEA countries with developing countries and developed capitalist countries in 1971-1975..
Millions of Roubles, at current prices.

	Developing countries A			Developed capitalist countries B			Total Balance A+B	Balance as percentage of the turnover
	Exports	Imports	Balance	Exports	Imports	Balance		
<u>1971</u>								
Bulgaria	133	+z 108	+ 25	271	321	- 50	- 25	
Hungary	134	117	+ 17	566	774	- 208	- 191	
GDR	200	167	+ 33	962	1.227	- 265	- 232	
Poland	247	193	+ 54	1.040	992	+ 48	+ 102	
Romania	173	125	+ 48	644	748	- 104	- 56	
USSR	1.825	1.271	+ 554	2.484	2.601	- 117	+ 437	
CSSR	361	207	+ 154	762	893	- 131	+ 23	
Total	3.073	2.188	+ 885	6.729	7.556	- 827	+ 58	+ 0,3%
<u>1973</u>								
Bulgaria	177	122	+ 55	329	387	- 58	- 3	
Hungary	165	182	- 17	860	842	+ 18	+ 1	
GDR	215	175	- 40	1286	1.905	- 619	- 579	
Poland	246	229	+ 17	1.643	2.609	- 966	- 949	
Romania	264	207	+ 57	1.080	1.169	- 89	- 32	
USSR	2.937	1.735	+1.202	3 750	4.589	- 839	+ 363	
Cssr	333	292	+ 41	963	1.135	- 172	- 131	
Total	4.337	2.942	+1.395	9.911	12.636	-2.725	-1.330	- 4,3%
<u>1975</u>								
Bulgaria	376	162	+ 211	324	952	- 628	- 417	
Hangary	256	314	- 58	855	1.257	- 402	- 460	
GDR	331	366	- 35	1.687	2.445	- 758	- 793	
Poland	657	456	+ 201	2.423	4.621	-2.198	-1.997	
Romania	894	582	+ 312	1.255	1.655	- 410	- 98	
USSR	3.306	2.999	+ 307	6.140	9.793	-3.563	-3.256	
CSSR	502	352	+ 150	1.157	1.562	- 405	- 255	
Total	6.322	5.234	+1.088	13.841	22.205	-8.364	-7.276	-15.3%

Sources: Statistical yearbooks of CMEA

The flow of foreign trade of CMEA countries to non-member countries, as shown by tables 4 and 5, was affected to a certain degree by inflation in the capitalist countries, by new price relations between raw materials and finished products since the end of 1973, by the recession in capitalist countries 1974/1975 (more difficulties for exports to these markets by growing protectionism and increasing competition) and by some other factors. Nevertheless some conclusions can be drawn with respect to the subject of this paragraph:

- The process of deepening of economic integration among CMEA countries had no negative effects on the growth of foreign trade with non-member countries as a whole. On the contrary, growth rates of foreign trade with developing countries and developed capitalist countries since the end of the sixties exceeded the growth rates of intra-area trade. Causes and tendencies differ between various groups of countries;

- in the long run, and seen as a whole, there was a high degree of balancing between export and import in foreign trade with non-member countries, especially with developing countries. Increasing deficits in trade relations with deve-

developed capitalist countries during the seventies must be
(19)
analysed in detail. The relation between the total
balance and the turnover (see the last column in table 5)
shows that there is little reason for discussions on the high
extent of indebtedness of CMEA countries on Western mone-
(20)
tary markets.

3. Foreign trade with developing countries is given great
attention in the economic policy of the individual CMEA
countries as well as in the relations and respective acti-
(21)
vities of the CMEA and its various organs. Up to now,
the volume of foreign trade between these two groups of
countries and the respective share in their total exports
and imports are relatively low, as compared with economic
relations between developing countries and developed capi-
talist countries. This is due above all to the historical
conditions, resulting from the colonial past, and the still
existing close economic connections between the imperialist
centres and former colonies or "dependent countries". But
statistics show that growth rates of foreign trade between
CMEA countries and countries of the Third World are extre-
mely high and that this section is at the time being the most
dynamic one of the world trade as a whole.

In the following we shall concentrate on some selected problems or new tendencies:

a. A speciality of this kind of international economic relations and at the same time a basis or possibility for their long-term stability is caused by the fact that they are part of the complex national economic plans of the CMEA countries ensuring to a high degree a conformity between these relations and activities in the field of economic integration among CMEA countries. Depending upon the conditions in the developing countries concerned as regards the level and the system of economic planning there are some first steps or attempts of establishing a certain "cooperation in planning" in the field of mutual economic relations resulting in bilateral agreements on governmental level.

(22)

b. Exports of CMEA countries to developing countries are concentrated on establishing key projects of industrialization and improving the infra-structure, leading to a share of about 70% of machines and equipment in their total exports to these countries.

c. Statistics show (see table 5) that there is a balance in principle as regards exports and imports between these two groups of countries. This development underlines the general policy of "aid by trade" in these relations.

Active balances in some cases result from exports of machines and equipment on the basis of governmental or commercial credits. Some new problems may arise by changes from bilateral clearing agreements to multilateral clearing in convertible currencies.

d. Traditional foreign trade is supplemented more and more by agreements on scientific-technical and industrial cooperation, leading among other things to a higher share of finished or semi-finished products in the exports of developing countries.

e. Multilateral agreements on economic cooperation between the CMEA and individual developing countries (like Mexico and Jraque) are characterising a new type of relations.

f. Another new tendency is the implementation of triangular agreements between CMEA countries, corporations of developed capitalist countries and developing countries for establishing great industrialization of infra-structure projects in some developing countries.

g. In 1972 the 34. session of CMEA presented proposals for extending the multilateral accounting with interested developing countries on the basis of the transferable

rouble, and in 1974 a Special Fund was set up at the International Investment Bank of CMEA countries- (JJB), amounting to 1 billion transferable roubles, for granting credits to developing countries in connexion with the provision of economic and technical assistance.

Up to now, little progress has been achieved in this field, due above all to some unsolved problems as to the convertibility of the transferable rouble and to certain problems concerning the connection of national planning and balancing within the individual CMEA countries and credit transaction of the JJB.

4. There exist also close interrelations between economic cooperation between CMEA countries and foreign economic relations to developed capitalist countries. This problem includes bilateral economic transactions between the individual countries of these two groupings as well as the cooperation between the CMEA as an international organ and the EEC authorities or other international bodies of the capitalist world economic system. Some selected problems or tendencies will be presented in the following:

a. Figures in table 4 show the relatively high share of developed capitalist countries in the total foreign trade

of CMEA countries as a whole and at the same time extremely high growth rates of this inter-area trade during the sixties and the early seventies, exceeding by far growth rates of foreign trade among CMEA countries and with other groups of countries.

This development proves on the one hand our thesis that socialist economic integration does not handicap economic cooperation on a world-wide scale in general and between countries of different socio-economic systems in particular.

On the other hand the overaverage growth rates during this period were caused by some circumstances, above all by changes in the international political atmosphere after the "cold war" and the increasing influence of a policy of "peaceful coexistence" since the middle of the sixties.

b. Foreign trade between CMEA countries and developed capitalist countries was and is still hindered by a protectionist policy of Western countries or regional groupings in general and against CMEA countries in particular. Outstanding examples are the common customs barrier of the EEC community against third countries, other non-tariff-measures against imports of various commodities, especially of finished products, the

non-granting of the "most-favoured nation clause" to various CMEA countries (e.g. by the United States of America) etc.

These factors are main reasons for imbalances in this inter-area trade (see table 5) and for the unsatisfactory commodity structure of the export of CMEA countries to capitalist countries (see footnote 18).

c. There is a new tendency in foreign economic relations with developed capitalist countries, characterized by an increasing number of agreements (on governmental and enterprise levels) on scientific-technical and industrial cooperation, especially in the field of machinery. In most cases these transactions are connected with the exchange of licences, a certain specialization and cooperation of production and arrangements on the selling of the finished products concerned on foreign markets, including the establishment of joint ventures for this purpose. There exist also some examples for joint production ventures in CMEA countries.

Hence it follows that industrial cooperation as the focal point of economic integration among CMEA countries is no hindrance for introducing adequate measures in relations to Western countries, aiming at improving the commodity structure of the export to these countries and promoting stability.

lity and efficiency of this section of foreign trade.

Apart from the positive results of these activities in general there seem to be also some negative effects resulting from an unsatisfactory coordination among CMEA countries in this field, e.g. in the production of some types of motor cars based on licences from West European cooperations.

d. Another new trend, sometimes closely connected with the afore mentioned one, is the conclusion of long-term "barter transactions" of great dimensions between state authorities and/or corporations of CMEA - and developed capitalist countries, including cooperation in investments and production, licensing, exports and imports of raw material, intermediary goods and finished products and granting of credits. In some cases these agreements aim above all at exploring and processing important minerals (e.g. in the USSR) and repaying the credits for imported equipment and technology by exporting these minerals for a long period to the partner country concerned. In other cases these transactions are connected in the first line with the construction of new plants in the fields of metallurgy, machinery or chemical industry (e.g. according to respective agreements

between France and the GDR).

Some Western economists and politicians criticize these "barter transactions" because of their strong bilaterality. But practical experiences prove their positive effects as regards the development of stable, comprehensive and efficient foreign economic relations between partners belonging to different socio-economic systems or integration blocs like CMEA and EEC.

e. Foreign trade and other forms of economic relations between member countries of CMEA and EEC will be of special importance and interest when studying the interrelations between economic integration and foreign trade. This is due on the hand to the economic potentials and the role of these two international communities in world economy and world trade and on the other hand to their role and practical experiences in realizing economic integration policies of different or opposite types.

As we mentioned before, some good results were achieved in the past years as regards the growth of inter-area trade in East-West relation (23) as well as the development of new forms of cooperation in the field of research and development, investments and production, based in the first line on

bilateral agreements on enterprise and governmental level.

Notwithstanding this progress, the specific conditions in Europe require obviously new dimensions of "All-European Economic Cooperation", above all in such fields as,;

- establishing a coordinated continental energy system;
- environment protection;
- improving the transportation system;
- joint efforts in solving some problems as regards the supply of important fuels and other raw materials;
- removing the still existing barriers in foreign trade, etc.

These and other problems of continental or global dimensions exceeding by far the possibilities of individual countries or bilateral agreements, should be the subject of international agreements between CMEA and EEC organs leading to a higher level of multilateral cooperation. (25)

In spite of differences in principle as regards bases, aims, methods and organizational structures of economic integration within the two communities the conclusion of such an agreement on principal directions of cooperation between the member countries and the authorities of the international bodies concerned as well seems to be possible and necessary.

Footnotes

1. See: Gamani Gorea, Secretary General of UNCTAD "An Assessment of International Development strategy and Second U.N. Development Decade", Development and Socio-Economic Progress, A.A.P.S.O., 1/1977.p.30.
2. See: B.Balassa "Towards a Theory of Economic Integration" KYKLOS, 1961, p.p.1-14; A. Schuler "The Failure of Economism in Western and Eastern Integration Policy", Inter-Economics, Hamburg, 9/10-1978, p.227.
3. See: B. Balassa "Types of Economic Integration," paper on the fourth World Congress of the J.E.A. Budapest, 1974.
4. J. Vajda, "Integration, Economic Union and National State" in "Foreign Trade in a Planned Economy", Cambridge, England University Press, 1971, p.35.
5. See: E, Balassa, "Types of Economic Integration", ibid,p.5.
6. See: S.A.Bahadir "Problem of Integration Theory in Relation to the Developing Countries", Inter-Economics 7/8-1978, Weltarchiv GMBH, Hamburg.

7. See: Discussion paper by G. Haberler and J.P. Hardt on the fourth World Congress of the I.E.A. Budapest, 1974. p.p.4,18,19.
8. This thesis can be proved above all by the historically rapid economic development of the former less developed East European countries (e.g. Romania) under conditions of economic cooperation and integration among CMEA countries.
9. In this regard there were certain similarities to conditions among some groups of developing countries intending to establish integration communities.
10. See: O.T. Bogomolow "The international specialization as a main method of socialist economic integration", Soviet sciences, socialscientific issues, Berlin, 7/1979,p.665.
11. Ibid, p. 670
12. Ibid, p.673 and the report on an international seminar in Berlin, May 1977 "Questions of specialization of national economic complexes of member countries of the CMEA,their mutual completion and the adaptation of the economic structures" in Wirtschafts Wissenschaft, 10/1977,p.1536

13. See: The above mentioned cases c) and d) and W. Kunz, G. Schulz "Mode of effects of economic laws of socialism and socialist economic integration" in Wirtschaftswissenschaft 8/1979, p.911.
14. See: V. Grinjor "Economic efficiency of the international specialization and cooperation of production" in Planovoe Chozjaistvo Moscow, 2/1974.
15. See: I. F. Kormnow "Specialization and cooperation of production of CMEA countries" Publishing House Die Wirtschaft, Berlin GDR. 1974.
16. Thus there were certain similarities as to the situation in some regional groupings of developing countries embarking on a policy of economic integration and collective self-reliance. As regards the starting conditions in CMEA countries see: N. W. Faddejew "The Council of Mutual Economic Aid", Moscow, 1974, Chapter 1.
17. Resulting from the considerable volume of foreign trade with countries of the capitalist world system these processes of inflation, cyclical crises etc affect the national economies of CMEA countries, too, e.g. by worsening terms of trade.

But a strong national economic planning and regulations of the foreign trade state monopoly are appropriate instruments for avoiding spontaneous and undesirable effects of these tendencies on the respective branches or enterprises of the countries concerned.

18. There are some factors causing this "two-fold export structure" above all the protective import policy of EEC in general and some individual Western countries in particular, Moreover was this negative development favoured by certain deficiencies in CMEA countries in the fields of production and marketing.

19. See: the following observations as regards economic relations with capitalist countries.

20. See: Fekete "Foreign Loans for promoting the economy" Budapest Rundschau 37/1978.

21. See: Joint Statement of Socialist Countries at the fourth session of the UNCTAD, TB/211. Nairobi, 5. May 1976.

22. Ibid, p. 30.

23. According to the high share of EEC countries in the total turnover of developed capitalist countries with CMEA countries figures in table 4 and 5 reflect actually these special trade relations.
24. See: "All European Economic cooperation" Published by the "Soviet Committee For European Security" USSR Academy of Sciences, Moscow, 1976.
25. Based on respective proposals of the CMEA there are negotiations between officials between both sides since several years, but up to now no real progress was achieved.