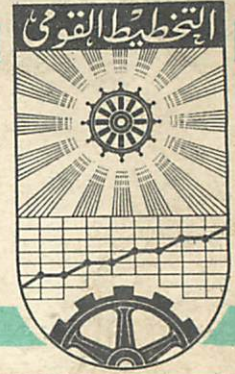


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ECONOMIC INTEGRATION AMONG  
SOCIALIST COUNTRIES

By

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## Economic Integration among Socialist Countries

### Introduction:

Increasing internationalization of the economic life is one of the phenomena of the economic development in the second half of this century, resulting above all from the necessities of the scientific-technical revolution and its requirements as to the national economies. This development seems to be more or less independent from the existing socio-economic conditions in the countries concerned. The establishment of integrating communities among groups of socialist countries, western countries and developing countries is an expression of this tendency.

Thus theory and practice of international economic cooperation and integration are an important subject of discussion among economists in all parts of the world<sup>1)</sup> and a theory of economic integration is being elaborated.<sup>2)</sup> These problems are of special importance for developing countries- e.g. for Arab states accord-

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1) See the papers of the Fourth World Congress of the International Economic Association on "Economic Integration: World Wide, Regional, Sectoral" BUDAPEST, 19-24 August 1974.

2) See: Balassa, Bela "Towards a Theory of Economic Integration" Kyklos, 1961, pp.1-14, G.Kohlmey "Economic Theory and Socialist Integration" Academy Publishing House, GDR, Berlin, 1975, Senin, "Socialist Integration", Progress Publishers, Moscow, 1973.

ing to the purposes of the Agreement of Arab Economic Unity- in the struggle of these countries for creating "the best conditions for the prosperity of their economy, the development of their wealth and reinforcement of their welfare"<sup>3)</sup>. Hence it follows that analyses of the experiences of integrating groups of western countries (EEC) and socialist countries (CMEA) with regard to the principles, aims and the mechanism of economic integration should be of some interest for economists of developing countries.

This paper is aimed at analysing some aspects of economic cooperation and integration among socialist countries in the framework of CMEA. The process of establishing the integrating community of CMEA countries will be presented especially under the historical view in conformity with changing internal and external conditions.

In the first chapter you find a general view on the historical development of economic cooperation and integration from lower to higher stages and an analysis of some results of this process. Chapter two comprises the system and the elements of the mechanism of economic cooperation under socialist conditions i.e. taking for granted public ownership of the most important

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3) See: "Council of Arab Economic Unity-What is it, what is it for, What did it?" Cairo, 1976, p. 5.



means of production and a system of socialist planning of the national economy in the countries concerned. According to the outstanding role of cooperation in planning as the main instrument of socialist economic integration methods, tendencies and problems in connection with this subject are dealt with in the third chapter.

(1) Historical Development of Economic Cooperation among the Member Countries of the CMEA.

1.1 Starting conditions for the economic cooperation among CMEA countries.

The possible success in establishing integrating communities depends to a high degree on the political and economic conditions and relations within and between the countries concerned, e.g. the socioeconomic conditions, the level of the economic development, the level and the structure of the international economic relations between these countries and to third countries etc. An analysis of these conditions will help to decide whether the establishment of an integrating community is possible at all at the time being and what aims, methods and organizational forms should be chosen. When comparing the results of existing integrating groups, e.g. of EEC and CMEA, the starting conditions of the countries concerned have to be considered too.

The conditions for establishing the community of CMEA countries at the end of the forties can be characterized as follows:<sup>4)</sup>

1. The political situation in Europe in the wake of the second world war favoured the economic cooperation among East European socialist countries, above all due to the following reasons:

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4) See: N.W. Faddejew "The Council of Mutual Economic Aid" Moscow, 1974, Chapter 1.



- a- Using the experiences of the USSR several East European countries began moving to socialist societies;
  - b- Europe was divided into two opposed groups of countries with different political and socio-economic conditions and structures;
  - c- The beginning of the "cold war", especially the function of the U.S. "Marshall-plan-aide-programme" for West European countries and the establishment of the "Coordinating committee for East-West Trade Policy (COCOM)" in Paris, aimed at introducing and implementing a comprehensive embargo-policy against socialist countries, stimulated a closer economic cooperation among East  
5)  
European socialist countries.
2. Uniform socio-economic conditions in socialist countries, based on the same political and ideological relations and the transition to social ownership of the most important means of production, were fundamental prerequisites for the foundation of an integrating community. This is in conformity with our opinion in principle that establishing an integrating community is possible only in the case of uniform socioeconomic conditions of the countries concerned. At the same time there existed interdependences between the estab-
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- 5) See: E, Hoffmann "Comecon-The Common Market in East-Europe" C.W. Leske Publishing House, Opladen, FRG, 1961, p.13.

ishment of this community and the gradual development of a socialist world market with favourable repercussions on the economic cooperation among this group of countries.<sup>6)</sup>

3. Resulting from different conditions in the historical development and from the huge losses during the second world war, the economic level in the member countries of the CMEA community as a whole was much lower than the respective level in the West European Economic Community (EEC). In addition to it, the differences with regard to the economic level were extremely high between the countries of this area. By reason of the economic situation in the pre-war time Czechoslovakia and the GDR were already highly developed industrialized countries. But the division of Germany into two separate states had a lot of negative effects on the proportional development of the national economy of the GDR, as the greatest deposits of raw materials and the centre of the heavy industry were situated in the western part of the country. Other countries like Romania, Bulgaria, Hungary and Poland were characterized at that time by a predominantly agrarian structure of the national economy, by a low level of labour productivity and a low national income per capita.<sup>7)</sup>

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6) See: "Socialist World Economic System" Volume 1, Publishing House Mysl, Moscow, 1967.

7) See: In detail: N.W. Faddejew. Op. cit, p. 23-44.



These great differences had negative effects on the level and the structure of the economic cooperation in the first stages of the development of the CMEA community, especially in the field of scientific-technical and industrial cooperation. Hence it followed that evening out the economic development levels of the individual member countries was one of the main purposes from the early beginning. New problems in this field have to be solved in connection with the widening of this integrating group of countries by the membership of Mongolia (1962), Cuba (1972) and Vietnam (1978).

4. The share of the intra-trade between the member countries of an integrating community in the total foreign trade of the countries concerned is one of the most important figures characterizing the degree of economic integration. Different from the situation in the EEC the export- and import relations between the East European countries at the end of the forties were on a very low level. This was due above all to the structure of European East-West-trade in the pre-war time (in general there was an exchange of industrial commodities from Western countries against agricultural goods and other raw materials from Eastern countries) and to the specific problems arising from

the division of the former Germany into two separate states.

Thus great efforts had to be undertaken, in order to change the regional structure of foreign trade of the East European socialist countries by raising the share of the intra-area trade. This problem is at the same time connected with the general question of determining optimal relations between intra-trade within an integrating community and foreign trade with third countries.<sup>8)</sup>

5. Further factors with far reaching impact on economic cooperation and integration among groups of countries are the existence and the regional distribution of natural resources, especially of vital raw materials and fuels, and the communication system. As to natural resources, the starting conditions of CMEA countries were favourable for economic cooperation. Resulting from the huge deposits of the USSR of coal, mineral ores, crude oil, timber etc. and according to the agricultural potential of the countries concerned as a whole a high degree of self sufficiency with the most important primary goods, e.g. in the field of energy, was and is possible for this integrating community. This does not mean a policy towards economic autarchy, but it promotes the stability of economic growth within this area and reduces negative

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8) See: Paragraph 1.4 and 2.6.



effects in the case of discriminating measures by imperialist countries (e.g. during the cold war in the fifties, when the U.S.A. and other Western countries applied a strict embargo policy against socialist countries). At the same time, the location conditions in the field of raw materials are closely connected with the problem of communication within this group of countries. Whereas the regional complex of East European countries, the nearness of most of the member countries and a well developed transportation system within and between these countries, favour the process of economic cooperation in principle<sup>9)</sup>, there exist some difficult transport problems with regard to a lot of raw materials. The bulk of deposits of the most important minerals, timber etc, is located in the Eastern regions of the USSR, in Siberia, whereas the centres of consumption are in the Western parts of the Soviet Union and in the other member countries of the CMEA. Hence it follows that in addition to high costs of exploration according to the extreme climatic conditions of this area great transport problems have to be solved in this field. Resulting from it, two of the so called "long-term joint cooperation programmes" of the CMEA refer to the problems of raw materials and of the transportation system between CMEA

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9) Special problems in this field arise from the different width of track of the railway in the USSR and the other East European countries and from transportation distances to Mongolia, Cuba and Vietnam.

10)  
countries .

Summarizing we can say that the political and economic conditions in the wake of the second world war favoured and stimulated the establishment of an economic community of socialist countries in principle, but that at the same time some negative factors handicaped the process of economic co-operation and integration which have to be taken into account when comparing the results between the integrating communities of CMEA and EEC.

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10) See in detail paragraph 3.4.