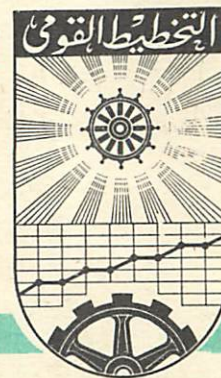


ARAB REPUBLIC OF EGYPT

THE INSTITUTE OF NATIONAL PLANNING



Memo. No 1259

Economic Integration And Foreign
Trade - The Case of CMEA

By

Prof. Dr. Gerhard Grote

Dec. 1979

Economic Integration And Foreign Trade
The Case of CMEA

By
Prof. Dr. Gerhard Grote
University of Economics Berlin, GDR
Visiting Professor at the Institute of
National Planning, ARE

CONTENTS

	Page
0 . Introduction	1
1 . Types of economic integration and consequences in principle for foreign trade.	3
11 . Bases and main characteristics of foreign trade in CMEA countries and their effects on economic integration.	6
111. Industrial cooperation among CMEA countries and interrelations to foreign trade.	9
1V . Socialist economic integration and foreign trade with non-member countries.	23
- List of footnotes	39

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.