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# The Relationship between Western Europe and the United States, and East-West Relations

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Relations between the United States and West European countries are important also from the point of view of overall European co-operation. These countries play a key role both in world politics, in the system of international military relations and in the world economy. Their political and economic contacts are essential for all of them.

The importance, contents and context of links between the United States and Western Europe have changed considerably, as compared to the decades following the second world war, and their development will be determined in the 1980s by, in many respects, new conditions.

The relations, formed in 1945 and characteristic practically until the 1960s, were based on several basic conditions:

First, the way of thinking of leading circles in America and Western Europe started from the point that the most vital question of their policy is to defend the positions of capitalism in Western Europe. This created a special and lasting unity of interests among them.

Secondly, the United States played a leading role in the Atlantic system, just being under formation, both in the military, economic and external political sphere. The Atlantic organisational structure was formed a priori on this basis.

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The aim of American policy after 1945 was to form a united Western Europe, based on the American pattern, functioning as the free and secure market for the industrial products of the USA, from a certain point of view as host country of American capital investments and, finally, as a strategic partner of the USA. West European leading circles, however, interpreted these ideas, differently, almost right from the beginning, and they regarded as primary aim the restoration of their individual power positions.

The United States tried to create a global, liberal, "self-regulating" free-trading and monetary system<sup>(1)</sup> together with the West European countries and with the co-operation of Japan - the focus of which would be, of course, the economic hegemony of America. There was, right from the beginning, disagreement between the nations of the region, as far as the interpretation of this system, the definition of its concrete aims was concerned.

The leading circles of the United States expected the gradual dissolution of the imperial systems of colonial powers and they even stimulated this process, hoping for being able, by breaking the imperial monopolies, to open up new channels towards the markets and sources of raw materials of former colonies. They thought that the politically dependent and divided world, just about to be formed, would remain, for a long time, a "safe" exporter of raw materials and receiver of finished products. They regarded as a natural fact that the United States would play a dominant role, both politically, military

and economically, while former colonial powers would themselves become part of the new American world empire, pushed to the position of the weaker partner. Former colonial powers, however, wanted to stabilize their own positions, exactly with the help of the USA.

In the way of thinking of American leading circles socialist countries, primarily the Soviet Union, would have remained outside this global system. At the same time, the fear from the main common enemy, the Soviet Union, would have acted as a primary cohesive factor of the global political and economic structure, created by the USA, and would have eased the forging of strategic unity and the realization of the strategic plan worked out against the Soviet Union and the other socialist countries.

Neither the American ideas, nor those of the West European leading circles were realized to their full extent. A number of American strategic concepts have failed since the 1950s but, also, events in many fields were different from those calculated and expected by the leading circles of West European countries.

The economic development of the West European capitalist countries and the United States, various important changes in world politics and the world economy have, since the 1950s, modified both relations of interest and the power structure.

1/ The formation of the East-European new economic-



-industrial zone modified the geo-economic map of this region and its situation. The military balance, coming about between the Soviet Union and the USA changed, on its turn, European and even global strategic relations.

2/ The dissolution of the colonial system and the formation of global military power-relations pushed the European big powers into the status of middle-powers. The fact that they lost the colonial hinterland created new world political and world economic conditions for them.

3/ The economic power-relations between the USA and Western Europe also changed.

a/ The share of the United States in the world's GNP decreased from 39,5 per cent in 1950 to 34 per cent in 1960 and to only 22 per cent in 1980; while that of the West European capitalist countries rose from 16 to 20, then to 24 per cent /within this region the share of the European Community increased from 17 to 20 per cent/.

b/ The gap narrowed, between the United States and its main West European partners, in the field of GNP per one man-hour. Taking the level of the US as 100, the situation in 1950 was as follows: Federal Republic of Germany 33, France 44, Italy 30, the United Kingdom 57, the Netherlands 53. In 1980, taking also the US figure as 100, that of the Federal Republic of Germany increased to 85, France to 79, Italy to 68, the United Kingdom to 61, the Netherlands to 90. The United States still took the first place of the ranking in this very important figure which reflects productivity of labour very well, among the developed capitalist countries but with a far smaller

margin than ever before. This change was somewhat compensated, from the point of view of the United States, by the fact that labour costs increased in the other developed capitalist countries faster than in the United States and, as far as labour costs per unit were concerned /these costs represent about 46-50 per cent of total costs in the average of the developed capitalist countries/, the figure of the FRG was almost 30 per cent, that of the United Kingdom about 40 per cent, that of Italy 60 per cent and, finally, that of France 13 per cent higher in the manufacturing industry in 1980 than the respective figure for the USA.

c/ The share of the United States declined in the world production of new products and new technologies. In 1953-58 it was around 80 per cent, and in 1954-64 it fell back to 67 per cent, in 1965-73 to 57 per cent and in 1974-80 to 49 per cent. During the same period the share of Western Europe went up from 16 to 20, then to 26 per cent. However, the United States still plays a leading role in the field of new and primarily of the so-called top level technologies.

d/ The United States represented, at the beginning of the 1960s, 23 per cent of the total exports of finished goods of the 15 leading Western industrial countries. Its share declined to 16 per cent by the beginning of the 1980s. The same figure for the Federal Republic of Germany increased from 17 to 20 per cent. Nevertheless, it deserves attention that the share of products demanding higher R and D the industrial exports of the USA is still the highest: it was 48 per cent at the beginning of the 1970s and, as compared to the OECD-average,

the figure was even higher than at the beginning of the 1960s.

4/ Significant changes have occurred in the relations between West European capitalist countries, too. Western Europe isn't "united" at all and has not become a "third power" in world politics and in the world economy. The nations getting into the frameworks of the integrational structure, have been developing under the influence of the rather special unity of mutual interests and mutual conflicts and, as a result of this and under the influence of external changes, both the situation and perspectives of the West European integration has also been modified. Neither the forms of customs union, nor other measures in the realization of the integration process have caused fundamental qualitative changes in the position of member-states and the same is true in the case of the enlargement from seven to nine or ten members of the Community. At the same time, the European integration process and the active role of the West European countries in the world economy has increased the external sensitivity and vulnerability of the individual states. The West European integration functions and acts, under the conditions prevailing at the end of the 1970s and at the beginning of the 1980s, mostly as a means of common protectionism, directed also against the USA, too.

As far as politico-strategic and economic considerations are concerned, four special dimensions of the relations between the USA and Western Europe have come about by the beginning of the 1980s: one of them is the traditional "Atlantic" dimension, the second I would call, for the sake of simplicity, the dimension of Helsinki. A

third, global dimension has also come about from the political and economic point of view: the relation to developing countries. The fourth dimension incorporates the relations of the Atlantic region with Japan and has become a considerable driving force mostly in the economic field. There are sometimes quite different forces and pressure groups behind each dimension even in the same country.

The Atlantic dimension is connected primarily to the policy of cold war and to that of tension and arms race and generally it comes to the fore in times of occasional Soviet-American tensions in the policy of the United States and of the West European circles which closely co-operate with the US. The "traditional" partners of the USA in Western Europe, who have vital interest in strengthening the Atlantic dimension are especially influential in Great Britain but their influence is considerable in other countries, too.

The "globalisation" of Atlantism /for example, in the frameworks of "trilateralism" aimed at strengthening the co-operation between America, Western Europe and Japan/ has proved to be impossible because it looks at and evaluates the world necessarily through the strategic relations between East and West. This is why the Atlantic dimension's main precondition is the strategically motivated hegemony of the United States in general but in the foreign policy and international economic policy of the West European countries in particular.

The Atlantic dimension of the relations between the USA and Western Europe has, as we have already mentioned,

developed, right from the beginning, under the pressure of disagreements of various types. On the one hand, both the United States and some /especially the more important/ West European countries maintained contacts of other types, different from the Atlantic relations which from time to time conflicted with the Atlantic one /for instance, the US actions against the former colonial powers in some regions or the common French-British action in 1956 to capture the Suez Canal, the conflicts between Turkey and Greece, etc./. On the other hand, NATO-policy, subordinated to American interests, many times endangered the sovereignty and special interests of the individual member-countries. That was the reason of the withdrawal of France, for example, from the military structure of NATO.

The development of the Atlantic dimension was influenced also by some other factors.

The prestige of the USA suffered a considerable "erosion" in Western Europe. Internal and external factors both played a part in this. American cold war policy which was supported by the majority of leading circles of Western Europe and which had supporters even among the general public, didn't contribute at all to the reinforcement of the positions of these countries. These were the years when the more important nations lost their colonies and not only they didn't receive help from the USA but, on the contrary, America itself tried to realize its own interests.

The moral prestige of America suffered a great

damage, as a result of the Vietnam war, also among the European general public and in the circles of the ruling class. The notion of the "liberating", "reconstructing" America was replaced by that of mass killers in My Lai, by a nation destroying villages, burning up forests of Vietnam, and the various civil movements protesting against war were directed, at the same time, against the international "role of a policeman", in general, represented by the USA.

The sympathy among the European general public for the internal institutions, political system of the USA was very strong mostly after the second world war. The people thought that the system which could raise science and technical progress to such a high level would serve perfectly as a model for Europe, too. Many accepted the idea that "European civilization", responsible for the war, lost its vital capacity and the dominating role of the USA was a natural consequence of this.

The <sup>se</sup> notions were completely destroyed by the severe problems of the political system of the United States, by the political assassinations, by Watergate and by the inside scandals of the different American governments. The escalation of crime and violence in the American society, the fear from "drug-addict young kids" also hurt the prestige of the USA in Europe. American foreign policy lost a certain part of the support it had enjoyed in Western Europe in the third world, too. The alliance of the United States with the most reactionary, fascistoid dictatorships in the world caused serious conflicts not only among the West European left but also among liberal civil political

movements and even beyond these groups.

Apart from all this, the relations between the United States and Western Europe were further complicated by the fact that the countries of the region were faced with the United States not on a common platform and changing aims. There were practically four groups of interest which emerged in the frameworks of the Atlantic dimension: one of them is the relationship between the USA and the Common Market, the second is the system of relations of the Federal Republic of Germany, the third is that of France, while the fourth is that of Britain, all the latter three with the United States. These four "junctions" do not mean, of course, that there are no separate factors, effects, problems in relation with other countries: a separate problem is, for example, that of neutral countries. Within this group of countries, however, the position of, say, Switzerland differs from that of Austria, Sweden or Finland. Nevertheless, the basic lines of power are still crystallising around these four "junctions".

The traditional partnership between Britain and the United States was not modified when Britain joined the Common Market. The close co-operation of British and American capital, financial relations and the so-called emotional links are still very strong.

It was perhaps France who turned against the United States most early and to the greatest extent, economically, politically and militarily as well. France withdrew its troops from the military system of NATO in 1966. It protested against the expansion of American

capital. It accused the Americans of buying up - through the inflated dollar - the most perspective-rich branches of industry in Western Europe. The manifestations of French-American conflicts seem to be less striking, however, at the beginning of the 1980s than they were either in the 1970s or in the 1960s but the confrontation of leading French circles and the French general public with the policy of the US makes the improvement of the relations between the two countries harder even today.

From the point of view of the future, the relations between the Federal Republic of Germany and the United States seem to be the most important in Western Europe.

The main basis of the European policy of the United States, followed after the second world war, was the Federal Republic of Germany, starting from the point that the FRG is a critical country, right on the frontiers of the western and eastern parts of Europe, which must be linked most closely to the foreign policy and to the strategic interests of the United States. The strategic importance of the Federal Republic of Germany has further increased since 1966, that is, after the withdrawal of France from the military organizations of NATO. Beyond this, the Federal Republic of Germany depends, both economically, politically and militarily, to a much greater extent on the United States as for example France or even Britain. It is understandable that the stronger economic position and the modification of the policy of the FRG affected Washington especially strongly, and the changes in the foreign policy of the FRG were considerable in many fields. There was especially strong disagreement in the question of the Ostpolitik of the FRG, despite the



fact that it was essentially in line with the policy of détente, also declared as a commitment by Washington at the beginning of the 1970s.

The "great alliance", the relation of the Atlantic Alliance became, from the strategic point of view, a part of a global system for the United States to a greater extent, in which the various actors and regions appear in a close and organic context and are valued according to how they integrate themselves into the global strategic structure. This structure, the underlying factor of which is still the relationship with the Soviet Union, includes the problems of the Middle-Eastern region and Western Asia, Central and South America, the relationship with the People's Republic of China and with the Southeast Asian region, the centres of crisis in Africa and, of course, the questions of the contacts between Japan and America, too.

The United States, as a global power, considers Europe or Asia also as parts of its global strategy. America, Western Europe, North-East Asia and South-East Asia are zones closely linked to each other, in the global American political strategy, in which Western Europe and the allied system of NATO and Japan are the most important pillars.

Some American strategists are playing seriously with the idea of creating a new global system of alliance which would include the more important pro-American states of both the Atlantic, the Indian and the Pacific region, or, as a "peak alliance" of regional alliances formed in

the given regions or, in the form an individual, new system of alliance. /About this problem see: Towards a Grand Strategy for Global Freedom, London 1981. Foreign Affairs Publishing Co. Ltd. pp. 20-33./.

At the same time, the United States evaluates the individual actions of its European partners, for example, those in east-west relations or in relation to the developing countries, subordinated to a greater extent than before to its own interests and own actions, and it made even certain efforts for extending the de facto sphere of interests of NATO to other regions, too. This effort was, however, practically not successful. The United States accused its West European partners several times of not supporting adequately American military steps taken in the region of the Persian Gulf /construction of bases, reinforcement of the American fleet/, and also of the little enthusiasm these countries showed in the case of American policy towards Afganistan. Some countries even condemned the policy of the West European countries towards the Central American region: the support for the progressive regime in Nicaragua and the delivery of arms to liberation forces in El Salvador.

The Helsinki dimension was crystallised as an aftermath of Soviet-American military balance and of the expansion of the policy of détente, and lead finally to the signing of the Helsinki Agreement. This dimension of the relationship between the USA and Western Europe is based on the greater independence of the West European countries and on the multilateral /economic, political,

cultural/ relations between the two sides of Europe. Not only the circles participating in the east-west economic co-operation are interested in this dimension. The "Helsinki dimension" represents an important factor also for the political and economic groups in Western Europe which try to obtain greater independence for themselves.

The role of the North-Atlantic Treaty in the Helsinki dimension is limited to maintaining the global balance of powers and to guaranting the survival of the social systems of West European countries. Of course, these two factors still represent an important common group of interests in the context of relations between the United States and the West European countries.

The policy /and international economic policy/ of the individual West European countries towards the Soviet Union and the other socialist countries, both declared as the main enemies in the Atlantic dimension, differed, however, in many ways from that of the United States in the past, too. The progress of the détente policy, the "Helsinki" dimension being up-valued, created a new situation in this field and reinforced the political and economic interests of West European countries in all-European co-operation.

The strong anti-communist ideas, recently appearing in the American foreign policy /and also in the domestic policy/, which consider the Soviet Union and the socialist countries as the "origins of all sins", haven't found positive reactions in the world among the majority

of West European countries /which have not only lived, since the years of cold war, without serious problems together with the socialist countries but this co-existence even proved to be advantageous for them politically and economically as well/. Even the West European conservative groups of the given countries who stand generally close to the policy of the United States do not regard the socialist countries as only "distant enemies", unlike the presently dominant circles in the USA, and they determine their relationship to the socialist countries not on the basis of "the relative number of rockets". Despite the conflicts arising from the differences of the respective social systems, which, naturally, have an influence /in some cases, a rather strong one/ on the leading circles and the public opinion of West European countries, the importance of the question of co-existence and co-operation has increased in the foreign policy of the majority of West European countries.

The signing of the Helsinki Agreement meant, in this process, something generally different for Western Europe as for the USA. The government of the United States looked at the Agreement from the point of view of its own global political interests and tried to support those elements which offered her new possibilities for realising her aims in Eastern Europe. In the majority of countries of Western Europe the interpretation of the Agreement was more comprehensive. They considered it partly as a closing action of a given period of European history, which opened up the way for the co-operation of

the two Germanies, settled the problems of Polish borders and the Berlin-question, gave new perspectives for economic and human contacts on a higher level, too.

This is one of the reasons why American foreign policy, trying to liquidate détente policy, did not get real support in Western Europe in the second half of the 1970s. Some American strategic efforts caused increasing suspicion and resistance in most West European countries among governments and especially among the general public.

The majority of European NATO-countries regarded as unrealistic the American concept about the "new Soviet danger". There was disagreement already around the military modernisation programme of NATO, announced still in the time of the Carter-administration, and the leading circles of West European countries linked their support of the American installation plans of missiles to the negotiations /and the outcome of these negotiations/ about the reduction of medium-range missiles. They considered the policy of the Reagen-administration, aimed at creating strategic superiority and new relations of power, as not only dangerous but contradictory to their own interests and efforts. Those nations in which the importance of independent political and economic actions is especially high, stood for their interests also from the strategic point of view with greater decisiveness than before. Disagreements concerning strategic ideas are correlated in more fields to economic questions and interests. /This was manifested, in the most direct way, in relation to increasing military costs but it came about in other fields, too /see more about it later/.

Strategic disagreements have become more apparent at the beginning of the 1980s in relation to American manifestations concerning nuclear war limited to the European region. These ideas had an especially strong impact on the leading circles and the public opinion of the Federal Republic of Germany because this country has direct frontiers with the socialist world and an enormous amount of nuclear weapons is already stored on its territory by the USA.

Other West European countries also seem to try, to a certain /different/ degree, to modify the American strategic aims and plans and there seem to be certain efforts even to separate their contacts with the socialist countries from these problems. Their aims and possibilities are rather differentiated, limited and depend, in many respects, on the general state of east-west relations, on the conflicts concerning tensions and centres of crisis in given periods which have an influence also on the individual West European countries /for example, the situation in Poland, developments in the Middle-East etc./. Their aims are influenced by the degree of the interpenetration of their interests with those of the United States of America and also by the character, the political "colour" of their leading circles.

We cannot go into the details, in the frameworks of this paper, of the other two dimensions of the relation between the United States and the West European countries. Political and economic factors are intertwined with strategic and military problems on different degrees

of intensity, in the contacts with developing countries as well as in those with Japan.

As far as developing countries are concerned, in some fields common strategic interests have come about between the United States and the West European capitalist countries: oil and the supply of raw materials are the bases for considerable common interests, despite the capital invested in the developing region, the relative freedom of mobility and security of transnational corporations, the competition between the countries involved and these corporations, even from the point of preventing progressive, socialist-type political regimes to seize power. There are, however, significant differences in the "degree" or interest. The raw material supply of the member-states of the European Common Market depends, for example, on external sources to 75 per cent, the same figure for the USA is only 16 per cent while that of Japan is high again: 90 per cent. There is often disagreement as regards policy and international economic policy to be applied. Some West European countries, especially those where the influence of social democracy is relatively strong, consider the situation in the separate developing regions differently and are inclined, to a greater extent, towards supporting reform policies both in their bilateral and multilateral relations. They regard as acceptable, moreover desirable, to co-operate internationally in more fields in institutionalized frameworks. Apart from this there are disagreements also regionally /for example, relations with South Africa, the solution of the Palestine problem, etc. / and the judgement of importance of the

various regions is also different from the point of view of the West.

The fourth, "Japanese dimension" includes, in the first place, economic considerations. The economic expansion of Japan causes severe damage in the West European countries as well as in the USA. Japan had in 1981 positive balance of exports towards the USA and Western Europe alike, 16 and 13 billion US dollars, respectively. Some capitalist groups in Western Europe are looking, at the same time, for a closer co-operation with Japan in the field of high-level technology and in the competition against the United States.

Economic problems interweave all the four dimensions of the relations between the USA and Western Europe, as we have already mentioned it before. Economic disarrangements have come, in the last years, to the surface especially strikingly and this had its impact on the summit meeting in Versailles in June, 1982. The practice that the heads of the seven leading capitalist countries meet regularly on economic summits dates back to 1975.

• /The seven participating countries are: USA, the FRG, France, the UK, Japan Canada, Italy and, recently, as the 8th participant, the representative of the European Common Market/. These summit meetings try, on the one hand, to offer possibility for the heads of nations to discuss, once a year, international economic questions together and, during these discussions, to get acquainted with one another's opinion and ideas and thus to fulfil an informal co-ordinating function, too. Besides these



reasons the summit talks are also meant to demonstrate the solidarity of the West.

The summit meetings have so far brought only small results in the field of improving relations or solving the problems of the countries involved. They, in turn, became occasions for the confrontation of different views. This was also the case in the Versailles-summit at the beginning of June, 1982.

The summit meeting in Versailles took place under hard world economic conditions. The economic crisis in Western Europe had been keeping for two years and the movement of the economic cycle had not been "synchronised", contrary to the crisis in 1974-75, in relation to the USA since 1977. The boom following the previous crisis was also "synchronised" in the Atlantic region, however, it was somewhat stronger in the USA than in Western Europe, it lasted from 1976 to 1979.

The boom was interrupted in Western Europe by the "mini-recession" in 1977; Production in the United States was stagnant in 1979, then later, in the second quarter of 1980, it sank, while in Western Europe a new boom was taking place from the beginning of 1978, just to be stopped by the second big increase of oil prices. Production from the last quarter of 1980 rose again in the USA /higher than earlier expected, as a matter of fact/ but a new recession began from mid-1981 on, mostly due to the high rate of interest /as being one element of the anti-inflationary policy of the Reagan-government/. The decline in Western

Europe continued in 1980, unemployment rose and West European countries didn't dare, in the given situation, to raise their rates of interest, at the same way as it was done by the US. A wide gap came about, in behalf of the USA, as far as the movement of rates of interest were concerned, attracting capital to America, while inflation was still high and unemployment also rose in Western Europe. Gross national product in the total of Western Europe decreased by 0,4 per cent, industrial production by 2,5 per cent in 1981 and the share of unused capacities considerably increased. The average level of capacity utilization in Western Europe in 1973 was 98 per cent, in 1974-75, that is during the recession, it was 94 per cent, in 1979, that is at the beginning of the present crisis, it was 88 per cent, sinking further on the average of the years 1980-81 to 85 per cent. Unemployment in 1982 in the OECD-area was near to 28 million persons /8 per cent of total employment/. In the USA unemployment went up to 10 million people. The annual number of bankruptcies rose to the highest level since 1932.

World trade in 1981 was stagnant. There are sharp contradictions, in the field of foreign trade, between the United States and its West European allies, and Japan. The member-states of the European Common Market try to defend not only their agricultural markets but also in the field of some textile goods from American products. The United States took restrictive measures against steel-imports from Western Europe /and Japan/. One of these

was the so-called trigger price mechanism which established a minimal import-price, based on Japanese production costs, under the level of which steel-imports "trigger" the automatic application of anti-dumping regulations. In 1980, for example, 75 per cent of steel imports from the European Economic Community fell into this category.

The economic difficulties of the West European countries can be attributed mainly to the economic policy of the United States which maintains the rate of interest on a very high level, while, as a result of the expansion of military expenditure and the slow increase of budget incomes, a "record" level of budget deficit is expected. This deficit is only partly due to the extraordinarily high level of the rate of interest, there is rather a "shortage of money" in general at the international markets - because of the slow development of western industrial countries, the economic difficulties of enterprises, the credit demand of developing countries hit by the narrower export possibilities and therefore being in the state of permanent and increasing indebtedness, the decreasing incomes and surplus of OPEC-members and the problems of some socialist countries.

The high rate of interest in the American economy is partly a reflection of how this situation has come about, partly it aggravates the tensions of monetary markets. As a result of the high rate of interest in the American economy, the strength of the US dollar increased by 40 per cent during the last two years. On the one hand, it put additional load on the other countries of the world because

thus oil imports, payed in dollars, became much more expensive /some economists regard this change as the third oil-price explosion for which now not the OPEC-countries but the USA is responsible/, while, on the other hand, it caused serious problems in international trade, too. The majority of West European countries didn't criticise the economic policy of the Reagan administration much at the beginning. In Britain, for example, the conservative government had begun to use similar "medicines" earlier than the US; it announced the reduction of budget expenditure, the cutback of many social benefits and the generally restrictive monetary policy to curb inflation. Other West European countries were also thinking about reducing certain aspects of the "welfare state". West European leading circles were counting on that the so-called "Reaganomics", that is the measures taken by the American economic leadership will raise the confidence of businnes in the economic policy of their own government, investments will grow and the American boom will have a positive influence on the economic situation in Western Europe, too. In 1980, at the summit meeting in Ottawa, President Reagen even promised the participating main partners that the USA would "put its own economy in order". Neither the expectations, nor the promises were realised. The situation became even worse. Economic forecasts for 1982 and 1983 expect a certain /sagging/ boom period but its preconditions seem very insecure in the present situation. Beyond this, the expected rate of this boom seems not enough to ease the problems. No country is willing to undertake, -under such conditions, the role of the "locomotive" which could pull after itself

the economies of the other countries. In earlier years this role was fulfilled by the FRG.

Only France tried to implement, at least in the western world, a growth-oriented economic policy, in order to decrease the rate of unemployment and to accelerate structural changes. This policy lead, however, to a very high rate of inflation. Contradicting interests and disagreements evolved also in the field of east-west economic relations.

The conservative forces who became part of the leadership in the United States, have tried, from the beginning of the 1980s, to restrict economic relations with socialist countries, mainly with the Soviet Union, in important fields. At the same time they try to extend their control on the "eastern" sphere of the economic co-operation of West European countries, too, aiming at, among others, applying means of common economic pressure on socialist countries, primarily the Soviet Union - in order to realise their political aims. Of course, they try to weaken the positions of socialist countries with the application of economic weapons mainly in the sectors using the most up-to-date technologies. The leading circles of the majority of West European countries know, partly from their own experience, that the "economic weapon" against the socialist countries, cuts in both ways. It may cause certain problems for them on the short run but, nevertheless, the western partners are also hurt. These interrelations have been understood also by the Reagan-administration in the case of US grain exports to the USSR, where strong American domestic interests were

involved. As far as its long-term consequences are concerned, it is counterproductive because it forces socialist countries to begin the production of those products themselves which they had earlier purchased from the west. Besides this, the leaders of these western countries understand that the repayment of credits given to socialist countries also depends on concrete trade relations and the West European countries are, as creditors, more important partners for the socialist world than the United States. Influential business groups in West European countries regard socialist countries not only as traditional markets and partners but they see possibilities in the cooperation by which they can diversify their sources of raw material, and primarily energy supply. A typical example of this is the big deal for natural gas between the Soviet Union and several West European countries. As it is well known, the government of the United States "officially" tried to block this contract, claiming that it would increase the dependence of the region on the Soviet Union and it would provide the Soviet Union with a considerable income of hard currency. The truth is, however, that certain American groups are economically interested in blocking the gas-contract. The American coal-exporting companies /being mostly in the hands of big oil companies/ have for a longer time demanded from the government to "torpedo" the natural gas business with the Soviet Union, counting on that the consequent energy shortage in Western Europe would be covered by American coal. This is, however, not profitable for Western Europe economically. The fight around the gas business has now become an important point in the economic conflicts between the USA and

Western Europe.

The agenda and the outcome of the summit meeting in Versailles was determined mostly by the economic difficulties and conflicts mentioned above. The problem of global talks between the so-called "North" and "South" was, however, also on the agenda of the seven leading capitalist countries. The United States insisted, for strategic reasons, mainly on discussing east-west economic relations, and within these primarily credit relations, and here again made certain efforts to bring this field of the economic co-operation of certain West European capitalist countries under American control - with the pretext of the necessity of "common control".

Similarly to earlier summit meetings, a declaration was formulated in Versailles, too, implying that no real improvement is likely in the contacts between the United States and the other leading capitalist countries. The participants called for the International Monetary Fund to examine the possibilities of settling the currency problems in order to "creating more stable currencies". The leaders of the United States expected modest changes, almost automatically, from the much-hoped low rate of inflation, while the West Europeans demanded to stricter control of floating and more frequent state interventions. The United States constantly criticised the protectionism, mainly the agricultural protectionism, of the Common Market which hampers the expansion of American exports. It emphasized, at an increased degree, the necessity of harmonising export policies versus currency mechanisms, on a mutual basis, and those topics which she intended to bring before the forum of the autumn session of

ministers in the framework of GATT, such as, for example, problems of export-credits, trade in services, the importance of the free rights of working capital investments.

The US wishes to use the institutions preserving their present autonomy for the global North-South negotiations, which means in practice that the ideas of the Reagan-administration once again dominated the principles accepted, as far as the preservation of the role of market relations, contrary to interstate intervention, was concerned. The proposal of the French leaders to promote, through common efforts, the development of high-technology industries and to gradually "phase out" declining industries instead of protectionist measures, was given a mild reception.

The West European countries didn't succeed in forcing the United States to accept such concessions which would mean a real change in the American economic policy, in the field of decreasing the rate of interest or the American budget deficit. The Reagan-government didn't make any decisive promises but mentioned only certain conditions and limited itself to general declarations and limited itself to general declarations.

The results achieved in connection with restricting the economic co-operation with the socialist countries are not more promising, either. The United States tried, well in advance of the summit meeting in Versailles, to induce her allies to restrict and "raise the price" of credits given to socialist countries and she laid new pressure on them for cancelling the natural gas-business. She couldn't,



however, get through with it, either, in Versailles. The compromise agreement concerning the question of credits stipulates, on the one hand, that each of the countries will follow a more cautious policy, in harmony with the political and security interests of the given country and, on the other hand, it stipulates the modification of credit conditions and the "regrouping" of some socialist countries into the category of developed countries. This will have an impact primarily on the rate of interest of export credits. The other statements concerning stricter credit conditions are somewhat more concrete and they hit, directly or indirectly, all socialist countries, however they are meant to have their effects primarily against the Soviet Union and Poland.

The question of the gas-business caused a sharp confrontation in Versailles and mainly after the summit. Since the United States couldn't persuade her partners to cancel the gas-business, she regarded this question as settled after the compromise concerning the stricter conditions of credits. Later, however, the Reagan-administration changed its opinion and banned, for all American and Japanese firms, to use the highest technology /either from the USA or from other western companies/ in the construction of the gas pipeline. With this action the US brutally hurt not only the interests of the West European partners but also their sovereignty. There has hardly been such an open and common action of the same intensity against the American decision by the West European governments since the second world war. Neither the interests of the USA, nor those of Western Europe

would benefit of this economic warfare. Therefore it is probable that finally there will be some form of compromise in the question of the gas-business.

There are various possible alternatives of the development of the relations between the United States and Western Europe in the coming years.

One of these is the increasing independence of Western Europe, based on the strengthening of West German-French co-operation and the intensification of the European integration process. This alternative is likely to prevail if the situation of the world economy gets even worse and, as a result, conflicts of economic interests with the United States become more strained, and it may lead to the considerable deterioration of Atlantic relations. Its political consequences may create a new situation even within NATO.

The other alternative is a Western Europe falling apart, accompanied by the increasing manifestations of national efforts of certain countries. In this process the more important countries obtain a relatively independent role and West European policy and the economy will become, with the survival of NATO, even more "multifaced". The growth of internal and international difficulties of the European integration may lead to this alternative.

The third alternative practically means the continuation of present trends, with smaller or bigger changes, the direction of which is determined and regulated by the harmony and disharmony of interests

and aims. The likelihood of this alternative is based on the important strategic and economic interests of the United States in Europe, the presence of American transnational companies in Europe, the dependence of the leading circles of Western Europe, on the global American strategy in a /from the military point of view/ basically bipolar world based on the Soviet-American relations, the dominant military, technical and scientific role of the United States in <sup>in</sup>ternational financial relations, the preservation of the dollar as a leading currency, the political and military situation and greater economic vulnerability of West European countries /either individually or in an integrated form/. This pattern of system includes, however, the danger of conflicts at an increasing extent, not only as a result of the "internal" conflicts of the western world but under the influence of external factors, too. An important role among these factors is played by the problems deriving from relations with the third world and with the socialist region.

It is a simplistic view to consider conflicts between US and the Western European countries as advantageous from the point of view of the East as such. First of all, these conflicts are developing on the basis of identical or similar long term strategic interests in the so-called systemic issues and therefore it has very little or no influence on the conflicts of systemic nature. Secondly, many issues behind these conflicts are basically neutral from the point of view of East-Est relations. Thirdly, the conflicts are often reflecting

the overall difficulties in the world economy and these are hurting the interests of the Eastern European countries as well.

One must not disregard, however, that when these conflicts are connected with détente and peaceful cooperation the interests of the Western European countries are coinciding with those of the socialist and other countries to oppose the groups in the US, which want to return to cold war policies and international tensions.

Commercial cooperation between SADEMI /Milano/  
SAE /Milano/, and TRANSELEKTRO /Budapest/ in  
components for long distance transmission lines,  
and questions of cooperation on third markets

The cooperation consists in essence of lasting commercial contacts not requiring any coordination of production. TRANSELEKTRO, the Hungarian foreign trade enterprise for electrical goods enjoys essentially a monopolistic position in this area.

The participants have maintained regular contacts for 15 years. TRANSELEKTRO supplies to the Italian party cables built into the transmission line conductors to the value of 4-5 million dollars annually. Usually the Italian firm builds these into the transmission lines which it itself erects as general contractor. The product manufactured by the Hungarian party /the cable/ is very raw material intensive /steel and aluminium being used in it/, and is a relatively simple but at the same time a delicate product demanding a high degree of reliability. No hindrances or problems have arisen in connection with the supply of this material.

Both the Hungarian and the Italian firms are engaged in the construction of complete long distance transmission lines on third markets. When the Hungarian firm is successful in a tender, it buys from the mentioned companies the overhead line conductors and certain fittings which are not being manufactured in Hungary. It is thus the Hungarian enterprise that is the general contractor in the construction of long distance transmission lines in Jordan. According to the Hungarian enterprise, the future form of

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contacts would not necessarily be cooperation in the strict sense, but it would consider it desirable that in the case of tenders where the Italian company is successful the Hungarian party should be included as a supplier or sub-contractor. The Hungarian party would be able to supply more components than until now. Mutual assistance on third markets is also important in this area because the market for long distance transmission lines is becoming narrower.

cooperation opportunity in the area of  
ventillation technology:

Mistral /Milano/ - Intercooperation /Budapest/,  
Szellőzőművek /Budapest/

Due to some contested questions, the contract has not yet been concluded. A contributing factor may have been the mutual lack of confidence by the potential partners.

Szellőzőművek is an important production enterprise, more than one quarter of the output of which is exported to convertible currency accounting countries. A considerable part of the income is derived from assembly abroad. This activity is carried out mainly with the participation of Austrian and West German firms. The most important cooperation occurred in Iraq and Algeria. Mistral is a small firm employing approximately 50 persons, engaged mainly in trading activity, and active also on markets outside Italy.

The commercial cooperation was initiated by Szellőzőművek, relying on simple market research, with two objectives. First, Mistral could have solved the exclusive Italian distribution of the ventillation products of Szellőzőművek, possibly in the form of a joint Italian enterprise. The turnover could have amounted to several hundred thousand dollars. It seems that these negotiations were stopped owing to price questions. The other purpose of marking contact was to extend the assortment available

in Hungary through imports. As may be seen, this activity could be or could have been cooperation in distribution. The main aim of the Hungarian firm was to export.

An industrial cooperation was proposed by Mistral. It would have transferred to Szellőzőművek the manufacture of a fan to be introduced. This would have amounted to 3-4,5% of the output of the Hungarian enterprise throughout the five years for which the cooperation was planned. The documentation was transferred by Mistral free of charge, but with a substantial delay. Later the Hungarian price offer became the object of arguments. For the time being the transaction is at a standstill.

No cooperation agreement has been signed. By virtue of the contract the partners would have transferred to each other the documentation and know-how of the fans free of charge. For the time being the concrete idea has been for Mistral to renounce the manufacture of certain fans, and this transaction could have led to an export surplus for the Hungarian firm.

It appears that both firms are strongly biased in favour of their own export, and only a balanced activity can be promising. It is perhaps the uncertain outcome of such an agreement, by the Italian partner is reticent to sign it.

This has been the first Italian contact of Szellőzőművek, and so far its experience has been more favourable with West German firms, where today already both parties strive for balanced trade, but mainly due to the longer standing relations the terms of the cooperation are more flexible and favourable. Szellőzőművek would also consider it more worthwhile to enter third markets with a West German partner.



Manufacture in cooperation of plastics processing  
thermo-forming machinery Triulzi /Milano/-  
Technoimpex /Budapest/, OVM Vas- és Müanyagipari  
Szövetkezet /Orosháza/

The Hungarian production enterprise, OVM, belongs to the cooperative sector. It is an engineering factory in the country-side employing 380 workers, which manufactures machinery for the plastics industry, hardware, and products demanding precision die-casting. The manufacture of the thermoforming machinery is one of the in quantity important and technically high standard activities of the Cooperative. /The machinery in question produces for instance the plastic tumblers used in vending machines./ The Cooperative supplies these machines to the Hungarian market and exports 80-90 machines annually to the CMEA markets. Technoimpex is a foreign trade enterprise which enjoys practically a monopolistic position. The Hungarian production enterprise uses relatively few import products for its own production, and is not linked to any other Hungarian enterprise, acts independently, which is a good precondition for its cooperation with foreign firms.

The Italian partners /Centrotecnica, Milano SPA and Triulzi/, the trading house and the production enterprise, are both larger than their Hungarian partner.

Cooperation was discussed in detail in 1977. This would have involved such a co-ordination of production between the two firms manufacturing a similar range of products, by which OVM would have produced the thermoforming machine of the Italian firm, which has a higher productivity than the Hungarian machine. This type of machine would have been manu-

factured in series by OVM for Triulzi, which could have stopped production. For the machine the Italian firm would have delivered 10-15 per cent of the components. Buying back 30 machines annually, the Italian firm would have possessed an important market segment, since according to the agreement the Italian firm would have been entitled to sell in Italy and in Western Europe.

The establishment of the cooperation was motivated by the following considerations. Triulzi has exported various engineering products to Hungary for a long time, and in order to maintain this market it would have been expedient to find a product together with the Hungarian enterprise which it can buy regularly, the technical standard of which is satisfactory, and which can be sold through its own marketing network. In the given area the machine represents a relatively high technical standard, and during the elaboration of the cooperation contract the Italian party offered to transfer the documentation of the machine to make competitive manufacture safe.

The Hungarian firms wanted to ensure their exports to the industrialized countries by the delivery of a product in which Hungarian industry was already advanced, and considerable business could have been transacted through a little technology transfer, investment and little additional imports making use of the marketing network of Triulzi.

The negotiations became very protracted /5 years/, but the cooperation contract was never signed. The Italian firm

did not want to commit itself to a commercial cooperation accompanying the sharing of production which would have involved the commitment to purchase a fixed quantity of machines. There were also considerable differences in the price negotiations.

The deterioration of market conditions in Italy could hardly have been counteracted by an advantage which the Hungarian party could have offered in either price or quality.

As a temporary solution the partners agreed that until an improvement in business conditions occurred they could proceed slowly. The suitable prototype was slowly being manufactured. Finally the Hungarian party sold in 1981 and in 1982 two machines each, to a value hardly exceeding 100 thousand ollars.

Joint marketing of gas turbine power stations on  
third markets

FIAT TTG /Torino/ - GANZ ELECTRIC WORKS /Budapest/,  
TRANSELEKTRO /Budapest/

The cooperation consists in essence of joint delivery to third markets, through sharing production.

The Hungarian party is an enterprise of great traditions and of a high standard manufacturing electric equipment, which cooperates with well-known firms and today too sells numerous licences.

Cooperation between the parties has been in force, with extensions, since 1969. By virtue of the cooperation agreement they jointly supply gas turbine power stations to third markets. The contacts began by FIAT supplying equipment to a Hungarian power station, and the the Hungarian parties requested that the Italian firm should also purchase from them. The partners have supplied gas turbine power stations since 1971, FIAT delivering the gas turbines and the necessary mechanical equipment, while the generators, transformers, and the electrical equipment belonging to the latter are manufactured and delivered by the GANZ ELECTRIC WORKS.

In the turnover of the works this output represents a high weight /approximately 20%/. The products are manufactured continuously with the most up-to-date technology and represent a high technical standard. Between 1970 and 1974 FIAT arranged third market transactions in Turkey, Libya and Dubai /these representing exports amounting to

approximately 6 million dollars for the Hungarian party/. IN 1975-76 and in 1981-82 the Hungarian party brought the orders for joint execution from Finland and Iraq /these representing exports worth 2.5 million dollars for the Hungarian party/, while between 1977 and 1981 the cooperation was inactive. In the same period Hungary imported cars and component- FIAT, and this emphasized the need for continuing the cooperation.

The motivation of FIAT is probably that through the Hungarian firms it also entered markets with which it would otherwise not be able to count. Further, as counter-deliveries for Hungarian purchases /Kele<sup>f</sup>öld power station, cars/ it can "import" from Hungary while at the same time carrying out third market exports, since the power stations are supplied jointly. Since the Hungarian firm is competitive in price and quality, there are no obstacles to such cooperation. The Hungarian firm sets the same credit terms on third markets as the Italian.

The Hungarian party is also very interested in the cooperation, because similarly to the Italian partner it can export in this way to new markets which it does not control. The Hungarian party has also learned a lot from the Italian company as to how it is possible to produce and deliver in a system, and how a joint venture can be implemented.

The market of gas turbine power stations is relatively dynamic, especially because they are relatively small and can be erected rapidly, are energy-saving and use the most

up-to-date technology. The Hungarian party continues to be interested in the cooperation, since it is competitive in the supply of generators, transformers and other electric equipment, and continues to look for new markets. FIAT has established a small separate organizational bureau, the task of which includes also the supply of gas turbine power stations, including the obtention of the necessary sub-units, the seeking of suppliers. This may cause difficulties in the Hungarian-Italian cooperation concerning joint deliveries.

Cooperation in the distribution of photo-chemical  
and photo-technical products

3 M Italia, Segrate /Milano/ - Forte /Vác/ -  
Chemolimpex /Budapest/

The cooperation agreement was concluded in 1977 with the Italian subsidiary of the multinational corporation which has its headquarters in the U.S.A. There is no joint product; an exchange of products is involved, in essence a barter deal. 3 M Italia initiated the agreement, because it had been unable to export to the Hungarian market. The Hungarian parties had a double interest: first the importing of modern photo-technical products was involved, and second, it was possible to pay for these by exporting black and white films, the Hungarian exports to the Italian market of which could not be increased in any other way. /On the Italian market a quota of 40 000 dollars was set for importing Hungarian black and white films./

The cooperation agreement was in force between 1977 and 1981, having been extended annually from 1979. The Hungarian import requirements amounted to approximately 800 thousand dollars annually, the Italian import requirements to 400 thousand dollars. This ratio continued to be characteristic of the cooperation, for which initially a balanced exchange of goods had been set.

Although with the special licences obtained by 3 M Italia, exports could be made to the Italian market which exceeded the quota tenfold, this was nevertheless insufficient for counteracting the high Hungarian import requirements. 3 M Italia stopped the production of black and white

films and obtained exclusive rights for selling the Hungarian product.

Through the import the Hungarian market is supplied with modern colour films. It is also possible for the Hungarian company to re-export the colour films of 3 M Italia, branded FORTE, with the exception of Europe, USA and Canada. The potential exists primarily in the Middle East.

It happened that the foreign trade enterprise Chemolimpex obtained from Iraq an order for a larger volume of colour films, which it was only able to satisfy by having it manufactured by 3 M Italia, and Chemolimpex delivered the film with the brand name FORTE. In another case it happened that on a third market Chemolimpex competed against the colour film of 3 M Italia by offering the same film branded FORTE. Such problems do not disturb the relationship between the partners, and they even often cooperate on various markets informing each other.

The Hungarian enterprise has adopted the 3 M packaging technique, bought a carton-gluing machine at a favourable price from a subsidiary of 3 M Italia. However, packaging is not full solved, and if there are perspectives for larger Hungarian exports, the packaging material is manufactured by 3 M Italia.

On the initiative of 3 M, from 1982 the cooperation partner is not its Italian but its Swiss subsidiary. The reason for this is probably that the range of activities of 3 M Italia does not include distribution outside Italy, while it is included in 3 M Zug's activity. This makes it



possible to eliminate the bottleneck of Hungarian exports. The Swiss subsidiary has a special international trading division. The Hungarian imports continue to come from 3 M Italia /amounting in 1982 to approximately 1 million dollars/, 400 thousand dollars worth of Hungarian exports go to Italy, but the further exports are arranged by 3 M Zug. This tie makes it possible for Hungarian black and white films to enter the USA market.

The first transaction has already been made with the USA/the packaging material having been delivered by 3 M Italia/. The Hungarian experts hope that exports to the USA can reach 2 million dollars /which would cover one tenth of the black and white film demand in the USA.

The tying of export- and import requirements to the subsidiary of the multinational corporation has resulted within five years in the tenfold increase of exports, has created organizational opportunities for entering new markets, provides the packaging material needed for the Hungarian exports, and there are justified expectations that the export - which has already risen tenfold - can be increased substantially further.

In the opinion of Chemolimpex, the principal value of cooperation with 3 M has been the creation of a dynamic potential for exports. Incidentally, the 3 M products are relatively expensive. /The Italian partner even reproached the Hungarian exporter on this account./ At the same time the large and flexible enterprise, which has extensive contacts, offers many advantages for the Hungarian partner.

Production of slaughtered and chopped pre-cooled rabbit  
Menozzi Fratelli /Torino/ - Gerecse Farm Cooperative  
/Tardosbánya/, TRIMPEX /Budapest/

The cooperation agreement concluded for six years in 1979 had been preceded by successful trade between the parties over several years. By virtue of the cooperation agreement, Menozzi Fratelli delivered for the reconstruction of the slaughter-house of the Gerecse Farm Cooperative of Tardosbánya, and later for the construction of a new slaughter-house equipment at preferential prices, managed the investment, and transferred know-how and technology free of charge. The purchase of machinery was implemented on the Hungarian side by Komplex foreign trade enterprise. The imports were paid for in cash. The Hungarian party undertook the delivery of slaughtered and chopped pre-cooled rabbit.

Both investments were implemented on time and fast. For the reconstruction of the slaughter-house Menozzi Fratelli supplied pre-cooling equipment worth 40 thousand dollars. The contract for the new slaughter-house was made in July 1981, with machinery deliveries amounting to approximately 200 thousand dollars. The new slaughter-house was commissioned in April 1982. The most modern rabbit-slaughter house of Central Europe was erected, which meets the strictest requirements of animal hygiene. It increased production capacity and made the production of export goods of a higher value possible.

Two circumstances which contributed considerably to the successful implementation of the investment were, first the continuous work of the engineers of Menozzi Fratelli, and second that the farm cooperative has its own construction team. The farm cooperative was able to offer its own construction team incentives for fast and precise work.

The pre-cooling technology makes it possible that the meat should be sold, without any damage, not in the summer months when there is oversupply, but 2-3 months later. Since the beginning of 1980 a turnover of 17-18 million dollars has been transacted. The new slaughter-house has a capacity of 3 million rabbits annually. At present this capacity is used up to 80-85 per cent. In order to purchase 3 million rabbits annually, the Tardos-bánya Farm Cooperative must be very active, since it itself does not breed rabbits.

Both parties to the cooperation have fulfilled their obligations in full. Neither party entertains ideas of changing the product or entering new markets. Menozzi Fratelli sells in Italy. It may later become possible to chop the rabbits which until now are only being slaughtered.

90% of Hungarian rabbit exports go to the Italian market, and 90 per cent of these exports are bought by Menozzi Fratelli. It has obtained preemption rights for the reconstruction of the old slaughter-house, and exclusive pre-emption rights for the rabbit meat produced by the new slaughter-house.

In the longer term this cooperation exhausts the possibilities of the Tardosbánya Farm Cooperative. This means that within this cooperation the endeavours of the Hungarian party are directed exclusively towards the stabilization of the relationship. No "world conquering" ambition exists in the cooperation, although it has to be pointed out that Italy is one of the biggest consumers in Europe. The participants like to work with the Italian partner.

A so-called "rabbit bureau" has been established by the association of several Hungarian rabbit breeders and TERIMPEX. The successful activity of the Tardosbánya cooperative, which has resulted in quality work, may represent an example for these producers also on other external markets.

Single general contracting on a three market:  
establishment of a tool- and prototype manufacturing  
factory in Iraq: Volani /Rovereto/ - TEchnoimpex  
/Budapest/

Technoimpex Hungarian foreign trading company concluded a deal with the SIEI Iraqi firm for the establishment of a tool- and prototype manufacturing factory. The deal was of a "once only" nature. The Hungarian enterprise acted as general contractor. The value of the entire transaction was 4,7 million dollars, out of which the Hungarian party supplied machinery directly from Hungary to the value of 2,6 million dollars. The Hungarian party had the buildings housing the factory built by an Italian sub-contractor, to the value of 2,1 million dollars. The inclusion of the sub-contractor was justified, because the Hungarian general contractor considered it more economical to work with the firm Volani which was familiar in the market, than with the Hungarian enterprises which then would have been available. The contract was made in 1978, and the deal was concluded by 1980. The Italian firm supplied the special mechanical and plumbing equipment at acceptable prices, kept to the terms of delivery and paid the Hungarian enterprise the commission which was due to the latter.

Joint-manufacture of filter-exchange equipment for swimming pools

Castiglione /Milano/ A+T - Aprilis 4 Engineering Works /Nagykanizsa/, Nikex /Budapest/

Hungary had regular contacts with the Italian Castiglione company over several years, buying swimming pool equipment from the latter. In 1980 the parties concluded a contract /from the Italian side the American-owned A+T company, the successor to Castiglione/. The aim of the contractual cooperation was to establish production contacts through which the Hungarian party may export to the foreign partner for the purpose of sustaining the the accustomed imports, and possibly even expanding them.

Under the contract concluded for five years the Hungarian party manufactures the filtering equipment, 50% of the necessary components being supplied by the Italian firm under temporary customs admission. The further 50% value is added by the Hungarian party /this being polyester filter containers made of Hungarian basic material/, and 99% of the finished filtering equipment is delivered to the Italian partner. The thus reached amount /i.e. one half of the value of the total deliveries used for the purchase of swimming pool equipment the manufacture of which in Hungary is not economical, or which used to be bought from the partner earlier too. These are chemical feeders, replacement parts for filtering equipment, etc. As may be seen, by virtue of the agreement to the value for which it supplies filter containers to the foreign firm.

The machinery needed for the filtering equipment is made available to the Aprilis 4 Engineering Works by the partner free of charge, and consequently the export can be started in essence without investments. In the first stage of the cooperation /1981. beginning of 1982/ imports were higher than exports, but owing to some slackening in the Hungarian import activity the deliveries may soon balance out. However, this will only reach approximately one half of the planned level, i.e. approximately 300 thousand dollars worth of actual exports from the Hungarian side, and the same amount of imports from the foreign firm.

The Hungarian party manufactures the filter contrainers in an adequate quality, and if the cooperation is successful, it is going to deliver out of this unit approximately 80% of the full output to its Italian-American partner. The latter has a considerable turnover in Europe as well as in the Middle East.

It may be considered a very flexible solution on the part of the foreign partner that in order to enable the Hungarian party to continue to import from it, it organized its production in such a way that the above described specialization could be established.

Manufacture of construction machinery in cooperation

Coma Italia, Castel /Bologna/ - ÉPGÉP /Budapest/,  
Nikex /Budapest/

The cooperation was initiated by the Hungarian parties for the purpose of developing the mechanization of the building industry. The cooperation agreement was concluded in 1979 and expires in 1990. Among the cooperation agreements investigated by us this one is valid for the longest term.

All three articles are new products in Hungary.

For the manufacture of the 36 ton-metre crane Coma provided the licence. Coproduction has been established. In this type of crane there is keen competition on the world market. The connection has been advantageous to Coma, because through this agreement it has succeeded in conquering a new market. It buys back the product, and the licence fee and current imports are covered in this way.

The 12 metre scaffolding is a jointly developed product, for which a joint team was set up. Manufacture has been started.

The structural support is an Italian invention. Coma has transferred the know-how and the licence, and the Hungarian partner pays in goods. 40% of the value of



the product is manufactured in Hungary, 60% is imported from Italy. It seems that within a few years the import share will be reduced to 20-30 per cent.

Hungarian exports in the cooperation consist of fitted iron structures, which Coma can use also for its other machines. Consequently the cooperation had an active balance in 1981 and is expected to close with a considerable export surplus in 1982 too.

With the reduction of Hungarian investment activity /inclination/ and the restriction of imports the situation of this cooperation agreement has become more difficult. Although all three products result in considerable technical progress in the building industry, the Hungarian enterprises have no money at present for such products, and they are not even able to pay for the components. In 1982 the cooperation was hit by the import restrictions.

In the opinion of the foreign trade enterprise /Nikex/, the interests linking the participants in the cooperation are strong enough for the long-term contract to weather this period. However, joint activity on third markets may give an impetus to this cooperation.

According to experience, Nikex's West German partners, when business slumped, immediately urged third market cooperation. But Coma seems to be slow in this respect, although there would be possibilities for joint construction and assembly on third markets. It may also be taken into consideration that Coma is an enterprise of the LEGA

leftist trade union association, and as such it has special opportunities on third markets, of which it perhaps does not make sufficient use.

Nikex foreign trade enterprise entered into partnership with the ÉPGÉP production enterprise for implementing all cooperation agreements of the latter. The foreign trade enterprise considers this a good form of internal coopération, which has proved to be efficient also towards foreign partners.

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EUROPEAN SECURITY AND THIRD WORLD COUNTRIES

by

Roberto Aliboni

Meeting between

The Institute for World Economics of the  
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and

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For several years Western Europe was accustomed to considering its relationship with the Third World as unrelated to its security. In 1973 the oil crisis raised a first problem of security. It has been, however, the enhanced role of the USSR in the Third World in the course of the '70s that has forced Western Europe to look at its relationship with the Third World in an East-West security perspective. This paper comments on the impact of changing Western European security perceptions on its relationship with the Third World.

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The most striking change during these last years has been in the central strategic balance of forces. Whereas the argument for a Soviet conventional superiority may even be challenged, as for nuclear capacities nobody doubts the existence of a parity situation. It is true that the reach and significance in military terms of such a parity has not yet been clarified in every detail and implication. However, its impact on perceptions has been far-reaching and is at the root of the Alliance's present malaise.

Nuclear parity has put into question the Alliance's ability to deter a Soviet attack on Western Europe. The NATO doctrine rests on the theory that the Soviets would never risk attacking Western Europe since the United States would be able to threaten the Soviet while keeping its national deterrence intact. This is no longer true, for an American nuclear reaction to a successful invasion of Western Europe would expose the USA itself to an effective Soviet nuclear response. This is not likely to be accepted either by the American people or by the US President. As a

result, the Alliance's real posture is affected by feelings of a decoupling of Western Europe and the United States. In other words the Americans are not likely to use their nuclear capacity to defend Western Europe because the nuclear parity attained by the Soviets deter them from doing so.

A tentative Alliance's response to such a risk of decoupling has been the decision to deploy the LRTNFs in Europe. Is this the right response to that risk? The fact that such a decision was proposed as a reaction to a single modernization - the SS20s - of the Soviet arsenal has misled the Western debate. True, the LRTNFs are an attempt at keeping the Western defence integrated against the overall Soviet nuclear build-up - which among other things includes the SS-20s as well. Provided that the LRTNFs are actually and timely deployed, will they ensure the integration of the Western security system? There is not a straight answer to this question. For the time being, LRTNFs are too few to be a credible deterrent and responsibility for their use rests on the Americans. Their role within the Western defense is not so clear as to really avoid any feeling of decoupling. It is a weak response to the decoupling issue. What about their possible evolution? Were the European LRTNFs more or less to become an effective deterrent, they would keep the Soviets at a distance irrespective of the credibility of the American deterrent. This means that the deployment of a European theater deterrence would become a way of keeping the Alliance formally united while dividing decisions and responsibility: a more or less covert way of practising decoupling, if not an overt way of remaking the Alliance (1). On the other hand, if the LRTNFs were

to prove ineffective, Soviet decisions would depend on the credibility of the American deterrent. Were the Soviets to perceive the Americans as unwilling to expose themselves to a nuclear strike in order to defend the Europeans, the inter-Atlantic decoupling would again emerge despite any LRTNFs deployment. On the whole, LRTNFs seem to be a very ambiguous response to the challenge that nuclear parity has issued to the Alliance, because they either do not avert decoupling or they actually enforce it.

Significant conventional rearmament would be a further option open to the Europeans (2). It would make it more expensive for the Soviets to check the effective working of the American deterrent as a reaction to a conventional attack on Western Europe. In this sense it would work as a deterrent itself. Nevertheless, a conventionally strong Europe is not a sufficient condition to eliminate decoupling from the Alliance. It would not affect the American willingness to deliver its nuclear response whenever required. One has also to point out that a Western Europe with a strong conventional capacity may well induce the Soviets to escalate their attack to the nuclear level from the beginning. Due to its nuclear nature a Soviet attack against a conventionally strong Europe will not change the US basic attitude towards its own involvement in the conflict.

The decoupling basically brought about by the change in the global strategic balance requires a more diffuse responsibility within the Alliance. All we have said so far makes it clear that in the new framework a nuclear and/ or conventional deterrent should in any case be owned by the Europeans. A wider diffusion of military decision-making

within the Alliance, on the other hand, does not necessarily mean the end of the Alliance's unity nor of its effectiveness. Quite on the contrary, it would give back to the Alliance its strength by eliminating a factor of unsolvable political dispute. The remaking of NATO's doctrine - if any - may follow. The reality, however, is that the Europeans do not seem willing to take up the challenge of this wider power diffusion. As for the building-up of an adequate conventional force of defence, the necessary economic and social cost has already been ruled out. As for the setting up of a European theater deterrent, its significance has been dangerously downgraded by the very European initiative of linking its deployment to the new arms control negotiations in Geneva. This gives the Soviets an amazing say on European nuclear modernization. Finally, nobody - with the still unclear exception of the new French government - is asking for changes in the Alliance. What is true is that the feeling of decoupling created by the new global balance of power is reinforcing factors of decoupling already at work within European politics. We have to mention three main factors.

First of all, the fighting of a war, either nuclear or conventional, on European soil is considered unacceptable. The experience of the Second World War, the European population density and the awareness of the destructive power of the new weapons make every European simply rule out war as an option. The cornerstone of European security policy is that war cannot be considered either an option or a possible occurrence. That this is the mainstay of the European security conception is not new. At the time of

the American nuclear superiority, however, the occurrence of a war on Western European soil was basically played down because the Europeans trusted the Americans deterrent. Now that a "limited" war, either at a nuclear and conventional level, on the Old Continent is a possibility, the European strategy of avoiding war is becoming unveiled. This explains the absence of European pressures and proposals for changes in the Alliance. Whatever the change, while it would never bring back the American deterrent, is supposed to set a more precise European responsibility on the ground of its conventional and/or nuclear power. Since this would openly imply that a European "limited" war is possible, no claim of changing the Alliance is made.

As a consequence of the coming up of this basic European security strategy one has to stress the fact that decoupling becomes a self-reinforcing process: the failure of the American power produces a decoupling towards the Europeans; a posture of decoupling is then adopted by the Europeans with the aim of avoiding the risk of getting involved with a power which is declining. Though it is made less visible by the weight and complexity of the political and institutional Atlantic relations, the European reaction is not substantially different from that of the Saudis after the fall of the Shah. As noted by Robert Tucker (3), the Saudis cannot accept the American military presence they wish in the Gulf, for they feel that the USA is unable to guarantee its regional presence at the global level. In these circumstances a local American military presence would only bring about external vulnerability and domestic instability to the Saudis without offsetting it with a last resort guarantee. The difference with the Saudis lies in



the nature of the security which is searched for. Whereas the Saudis are seeking to secure their wealth and power, the Europeans by avoiding a war they perceive as ultimate, wish to secure their basic civilized existence. In the eyes of any allied country, however, the US cannot help shifting from a role of security source to one of almost insecurity, as soon as its power is perceived as declining.

The second factor affecting European politics is the European countries' inability to unite. It is clear that the individual European countries are unable to defend themselves from any Soviet threat. On the other hand, Western Europe has failed to set up an integrated system of defence. As long as the American nuclear deterrence worked, the flexible response doctrine has given the European countries a sense of security even though they continued to be disunited. Now that the American deterrent has been undermined, the European countries' inability to defend themselves cannot be concealed. For this reason, one would expect a new and major European effort to unite. For a strengthening of Western Europe's institutions and the pooling of its resources would make available the economic means to build up a credible European nuclear and/or conventional deterrent. What is more it would allow for a wider diffusion of power and responsibility within the Alliance which - as we noted - may be the way out of the present crisis. Unfortunately the European countries far from undertaking this effort, are fragmented as never before.

Pierre Lellouche (4) wonders why the Europeans are not pushing for a change in an Alliance which is supposedly not giving them the security they need. Besides the explanations he gives, one has to add that they do not ask for

this change because if they did they would consequently have to unite. For only if they unite would they be able to take up the wider responsibilities implicit in the Alliance's change.

In these circumstances one may wonder what is the meaning of the European countries' continuing reliance on the Alliance. Since the flexible response cannot work anymore and the Europeans have failed to revitalize the Alliance by integrating themselves, NATO is becoming more and more a set of barely coordinated bilateral relationships. Perception of the European role within the Alliance is therefore changing in both the American and European eyes. From active contributors to the common defence, Europeans are becoming beneficiaries of an external defence guarantee. The Americans perceive the Europeans as people demanding protection (and quite naturally are questioning the limits of that protection), whereas the Europeans simply expect an American support under NATO's label. In this sense, the European countries' inability to unite is a factor which reinforces the decoupling springing from the change in the central balance of power.

This military asymmetry, on the other hand, is not without political consequences. Turned into an external military guarantee, the Alliance becomes an assurance to the European non-military policies of security (economic cooperation, arms control, détente) at the regional level, which are the basic elements of the avoidance of war strategy which we talked about some paragraphs before. Here again we come to see how close the European politics is getting to that of the Third World countries. As in the case of these countries, any alliance is bidimensional for

it will be part of a global gear from the point of view of the superpower, whereas it is the under-pinning of local policies from the point of view of the regional countries.

. The third factor at work is the German issue. The construction of a European federation was to be for all European peoples the way out of nationalism. For Western Germany it was to be the alternative to the reunification of the German nation. Neither the federalist doctrines nor the European common institutions have grown so much as to represent the necessary alternative to the German nation. Nevertheless, the Federal Republic of Germany has not evolved a new nationalism. Its policy has been that of leaving the reunification option open in the long run. For this reason the FRG has never set in motion a national reunification policy nor any other nationalistic policies. Rather, any policy set in motion has been designed to produce and promote such an international environment as to keep open its long term reunification option. In this frame détente with its paraphernalia (arms control, economic cooperation, etc.) has become the most important component of German international policy. As long as there has been a USA-USSR détente at the global level, the management of a regional détente in Central Europe was not to cause any fundamental problem. Now that the global détente is failing, along with détente in such crucial areas as Southwestern Asia, there is a problem of consistency between both the perceptions and security interests of Americans and Germans. On the other hand, one has to underline that divisibility of détente is shared by other European countries for reasons ranging from domestic constraints, to economic pressures,

to differing geopolitical perceptions. Like the factors already discussed, the European claim that détente is divisible is bound to affect the decoupling trend opened by the change in the central balance. For the interpretation of the Alliance in strictly regional terms cannot allow the survival of a relationship which is supposed to be of a special nature between the USA and Western Europe.

To grasp the full scope of European security perceptions one must also bear in mind the fundamental European dependence on trade and raw material imports, particularly oil. The international economic order assured by the American power and the safe and cheap flow of oil taken home by the American companies until the beginning of the '70s, led the Europeans to endorse their dependence on the USA both for trade and raw material supplies. The decline of American power and the profound changes undergone by the international oil market have forced the Europeans to envisage a larger concept of dependence, namely not only on the USA but on the entire world. For in the absence of a last resort guarantee the typical insurance against a risk is that of spreading as much as possible both supply and demand. It is not by chance that this is the foundation of the Eurocurrency markets, where a last resort guarantee (a central bank) is missing and consequently the risk is curtailed by spreading loans supply and keeping alive a substantial amount of loans demand. Likewise the Europeans on the one hand have tried to strengthen Third World and Socialist countries as trade partners in order to enlarge and diversify demand and, on the other, have begun to diversify the pattern of their suppliers of raw materials - particularly energy materials - by developing relations with the Soviet Union and gas imports.

Supply security, therefore, is based on policies which bring about a declining relationship with the United States and, conversely, a growing relationship with other partners including the USSR. Although this factor is not of a strictly military nature, on a strategic ground here again one can notice an aspect of the Euroamerican decoupling springing from the change in the overall balance of power.

On the whole the factors discussed so far shed light on a European security perception of growing regional character, based on non-military policies and designed to keep non-conflictual relations with the USSR. This new overall security concept has a number of important consequences on the Western European posture towards the Third World countries:

- a) The overwhelming goal of keeping non-conflictual relations with the USSR forces the Europeans to adopt the concept of divisibility of détente. Consequently they are leaning more and more towards either swallowing any Soviet aggressive moves in the Third World - with some remarkable exceptions of France in Africa - or to play down its importance. This amounts to saying that the European posture towards the Third World on the political and military ground is considerably determined by its Central-European relation with the Soviet Union.
- b) A first corollary of this crucial constraint on the European policy towards Third World countries is that Europe is showing an increasing propensity to envisage a positive and cooperative role of the Soviet Union in the Third World. The European dissatisfaction towards the Camp David process has been, among other things, also

an acknowledgement that political settlement in the Middle East might include the USSR. On the other hand, proposals as groundless as that of giving the Europeans a guarantee on the oil flow from the Gulf (5), do reveal how aware the Soviets are of the European security perception and are a means of encouraging the Europeans to think of the USSR as a cooperative partner within the framework of insecure industrialized Third World supply relations;

- c) A second corollary is that Europe is inclined to encourage a certain competition between Third World and Socialist countries in order to obtain economic advantages and most of all security. This explains the European energy import policies - as we have already noticed - but also European soft financial policies. This competition prevents a larger flow of European resources from going to the Third World countries. From the point of view of the long term commercial European interest, this diversion is detrimental. On the other hand, one has to admit that, regarding both oil and money, the Third World countries do not appear as safe as the Socialist countries.

## Notes

- (1) A point of view over the remaking of the Alliance is in Irving Kristol, "Reconstructing NATO: A new role for Europe", The Wall Street Journal, August 12, 1982
- (2) See the assessment of the conventional balance in Central Europe in The Economist, July 31, 1982, pp. 30-31: "Do you sincerely want to be non-nuclear?"; see also Pierre Lellouche, "A Revolution in NATO Strategy", Newsweek, November 1, 1982 and Neville Brown, "The Changing Face of Non-Nuclear War", Survival, Sept.-Oct. 1982, pp. 211-219.
- (3) Robert W. Tucker, "The Purposes of American Power", Foreign Affairs, vol. 59, No. 2, Winter 1980-1981, p. 252 and 254.
- (4) Pierre Lellouche, "Does Nato have a Future? A European View", The Washington Quarterly, Summer 1982, pp. 40-52.
- (5)

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László C S A B A :

MANAGEMENT PROBLEMS OF THE HUNGARIAN ECONOMY  
IN THE FIRST HALF OF THE 1980'S

The XXVI<sup>th</sup> Congress of the CPSU has drawn attention to the need for an in-depth and mutual study of the experiences gained by the individual CMEA countries in the running of their differing economic management systems. Speaking on the XXXVI<sup>th</sup> Session of the CMEA held in Budapest in 1982 Premier N. Tikhonov re-stated, that even the USSR, the country with the longest history and richest experience of the planned economy is positively interested not only in the passive study but also in the practical implementation of efficient management-solutions, worked out in other fraternal countries.<sup>25/</sup> Hungarian economists - as it is documented by a voluminous literature on the subject - have always paid great attention to the changes in management practice in other CMEA states and nowadays there is a growing interest in this respect. In order to facilitate better mutual understanding of each other's problems I try to outline within the limits of a few pages the major features of contemporary changes in the Hungarian economic mechanism. In treating this subject I use the concept of economic mechanism in the wider sense, as it has become conventional in Hungarian economic literature. The term embraces the planning, institutional, organizational, and financial regulatory systems as well as formal and informal relationships among economic management units and the actual way of functioning of the economy as a whole /including behavioural norms and forms of entrepreneurship/. In the following I shall confine myself to economic management problems, while a full analysis of the economic policy background could be a topic of a separate article.

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New Model of Planning

The basic principles of the current Hungarian economic mechanism have been established by the May, 1966 session and then the IX<sup>th</sup> Party Congress of the MSZP. These have opted for the complete abolition of mandatory plan indicators and granted enterprises the right to decide - within the limits set by the financial regulatory system and the monopoly of foreign trade - on all questions concerning current production and also on some questions of expanded reproduction. The basic resolutions outlined a system of planned and regulated market, which means that planning actively utilizes commodity-monetary relations, and the latter also serve as a feedback, i.e. a control of the reality of macroeconomic plan-targets in the course of their realization.

The actual way of development differed from the above model to a significant degree, since the original reform-concept was only partially implemented, and from the November, 1972 plenum of the Central Committee till December 1978 - under the impact of political factors<sup>3/; 11/</sup> - recentralization, i.e. a reversal of the economic reform took place in day-to-day economic management (importantly though NOT in the political sphere). This resulted in a centralistic / basically macroeconomic and defensive/ answer to the challenge of world economic changes. This was in part a result of the serious underestimation of the magnitude as well as the nature of the epochal transformation in the world economy. However, even the incomplete realization of the economic reform concept has brought about some substantial achievements both in theoretical and practical aspects.

Numerous articles evaluating and analyzing the Hungarian economic reform, dealing with the details and causes of the incomplete realization are found in Acta Oeconomica, the quarterly of the Hungarian Academy of Sciences.

It has been proved in real life that a socialist economy can be managed without the systematic use of mandatory plan targets. In fact, issuing obligations as an exception rather than as a rule has not undermined the leading role of the Communist Party. The basically indirect system of economic management relying on enterprise initiative has proved to be a viable alternative to the traditional directive planning system.

The study of the plan-actual figures of five medium-term plans in Hungary brings us to the conclusion that the more the plan contained detailed mandatory targets, the wider were the divergencies from the policy priorities - and also from the compulsorily prescribed indicators - of the Five Year Plan. The Fifth Five Year Plan /1976-80/ had to be modified in December, 1978, in accordance with the changed conditions of capitalist and also socialist world markets, but - in my view - it would have been a simplistic approach to macroeconomic planning if the leadership of the country had not reacted to the cumulatively deteriorating balance of payments situation, just in the name of the existence of a medium-term plan document. From 1979 on - as in Czechoslovakia - restoring foreign economic equilibrium took precedence over growth dynamics and <sup>over</sup> adherence to the targets of a medium-term plan, whose underlying preconditions have dramatically changed. Increased emphasis on the economic reform made it possible, that the actual development of the Hungarian economy during 1979-1982 was in broad lines in accordance with the new economic policy priorities, set in 1978, and the indebtedness of the country began to decrease both against CMEA and Western partners. In this sense, the planned character of the Hungarian economy has been strengthened.

The concept of macroeconomic planning itself has also been brought into line with present day realities. In Hungary most economists share the point made by Czechoslovak Minister of Finances Leopold Ler, that setting plan-targets fixed unchanged for five years would not be in accordance with the realities of our days.<sup>17/</sup> That is why in Hungary - as in Czechoslovakia - an "open plan" has been worked out for 1981-85. In Hungary it

means, that economic management organs no longer press for the unconditional fulfillment of quantitative plan-targets - very few of them is listed in the medium-term plan for 1981-85 - and the decision on some major questions has deliberately been postponed to the years of 1983 and 1984.<sup>10/</sup> This way Hungarian planners try to avoid mistakes made in the earlier periods, when decisions /taken often in physical rather than in value form/ of the first year/s/ of the plan overdetermined developments of the last years of the plan period, not leaving sufficient room for manoeuvre in adjusting to the changing circumstances.

It has to be added however, that this truly principal change in approach to macroeconomic planning could not fully be realized in 1979-1981. Analysis of financial flows<sup>7/</sup> indicates, that central development programmes - such as for coal-mining, for pharmaceuticals, for intermediary products, for economizing energy - basically still took precedence over considerations of efficiency and also over rules of normative financial regulation. For instance, the credit plan for 1982 was in 100% pre-determined by in-kind decisions, formulating - or stemming directly from - central development priorities.

#### Changes in the institutional and organizational systems

One of the contradictions of the reformed Hungarian economic management system was that while changing the role and means of planning and also of financial regulation, it left the organizational-institutional system unaltered. The preservice of an overcentralized organizational system of enterprises - brought about by the needs of the then existing directive planning system in 1962-64 - as well as the unchanged institutions and personnel of the sectoral ministerial supervision has become a major constraint on the economic reform itself. While the so-called "computation materials" of the national economic plan - as well

as the plan itself - is not obligatory according to law, branch ministries and regional organs kept on pressing enterprises to adjust their activities according to these figures rather than to market signals all over the seventies. The inherent problems of sectoral control - known from the Soviet economic literature as "uzkovedomstvenny podhod" or narrow departmentalism - kept on existing and was a major factor of cyclical overinvestments in 1971-72 as well as in 1977-78, contributing significantly to the growing indebtedness of the country.

Among other factors these developments motivated the decision to merge three major industrial ministries in 1980 into a single Ministry for Industry. This - in fact - was a step, originally planned for 1966-70, but then postponed and never realized during the seventies. However this step follows from the very logic of the indirect system of economic management. Since physical planning requires increasingly detailed specification of tasks, it results - as shown by economic history experience - in a growing number of economic management organs. In a monetarized, decentralized system however, since profit is the sole success indicator in the competitive sphere - there is no need to distinguish between light and heavy /or any other/ industries.<sup>22/</sup> Consequently the maintenance of the branch ministries was truly superfluous already in the seventies, and the merger of the 3 industrial branches is going to be followed - according to current plans - by other mergers of state management organs. One obvious possibility would be the merger of the two trade ministries, the other would be a centralization of the three separate organs dealing with problems of income-regulation /Ministry of Finances, the Price Office and the Wages and Labour Office/ step by step into one state organ.

The banking system needs more independence on the one hand and a thorough decentralization on the other, since its current structure still reflects the developments and needs of an earlier period, when the chief task of the bank was supervision. The central bank and the commercial bank functions should also be organizationally separated.

Untill these far-reaching plans of institutional change materialize, however, the Ministry of Industry has to function among other - usually traditionally organized - management organizations. As a result, for the time being it had to adjust itself to the management style of those, and - of course - to the experience of its own personel, recruited chiefly from the ranks of the former branch ministries, who are accustomed to the practice of detailed supervision of enterprise activity. At present the contradiction between the statute, structure and aims of the Ministry of Industry on the one hand, and the practical circumstances it is currently functioning in on the other hand seems to have been transitorily solved in a way, that resembles more to the old sectoral ministries than to the new statute and to the new line of thinking.

Day-to-day "market-supervision" has become the job of the National Price Board /although in theory it seems questionable, whether the supervision of correct market behaviour can usefully be made of a job of a state organ, rather than that of the economic judiciary,<sup>+</sup> especially if this organ has other major field of activity than anti-trust regulation/. The role of the Price Office has been significantly enhanced by the fact that it administers the new price system of 1980/see later/. Beyond this and market supervision it also acts as a watchdog against those attaining unjustified profits or braking the centrally set rules of price-calculation.

Growing balance of payments difficulties and lagging adjustment processes ripened the idea of creating a two-tier governmental control system over the economy. It is the State Planning Commission which arrives at principal decisions, whereas the Economic Commission of the Council of Ministers looks after day-to-day problems. The Economic Commission - headed by the dynamic Deputy Premier József Marjai - has the right to supervise any

<sup>+</sup>Of course, consumer defending organization, representatives of industrial interests/as the Chamber of Commerce/ as well as state quality control institutions can be instrumental in initiating judiciary actions against unfair competition. See /27/

external or internal economic problem it feels worthy of, and can in fact order to take certain short-term steps in order to solve it. This was thought to be necessary, because it was found that in some cases it was mainly inter-ministerial inertia and bureaucratic procedures that hindered quick and flexible adjustment to external disturbances.

It is also the head of the Economic Commission who has the right to supervise those import-restrictions which had to be imposed because of balance of payments difficulties.<sup>+</sup> Worsening discipline in supplies from CMEA partners - which was a target of criticism on the Budapest Session of CMEA by the Hungarian<sup>16/</sup> and Czechoslovak<sup>21/</sup> Premiers - made inevitable to strengthen central - government level - supervision of the timing and fulfillment of deliveries and counter deliveries to and from CMEA-partners. This is also being looked after by the Economic Commission. In the meantime, it is the State Planning Commission which approves central development programmes as well as decide on the fate ~~xx~~ and the restructuring programmes of notoriously unprofitable companies.

In the enterprise sphere first steps were made to discontinue the economically unjustified, overcentralized enterprise structure. Some large enterprises have been dismembered, some plants have /again/ become independent economic units. Furthermore several horizontal trusts have been dissolved /such as in the production of canned food and of soft drinks/. In other cases central bodies of former trusts lost their power to regroup financial funds of enterprises, and continue to exist as technical servicing or marketing centers. Still in other large /national, multi-firm/ "enterprises" intra-enterprise cost-accounting/Khozraschot/ has been strengthened and the right to compensate losses of one plant at the expense of the others has been circumscribed and limited.

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<sup>+</sup>In September, 1982 the Hungarian Government officially notified GATT signatories of the imposition of quantitative restrictions on imports.

According to the autumn, 1982 official position of the Government, agro-industrial associations can only function as experimental units. It seems probable, that their current number of 4 will not increase till 1985, because it has been correctly shown by the experience of their functioning<sup>9/</sup> that they are shaped to the requirements of a different - viz. directive - management concept of agriculture, than the one existing in Hungary. It is not necessary to prove, that their present right to regroup financial funds of the member-cooperatives - the extension of which is advocated by the author cited under 9/ - is just as contrary to the spirit and logic of the indirect model of plan-based management, as it was in the case of industrial trusts, discussed above.

In fact, it was in agriculture where from the late 1950's on the virtually organic coexistence of small and large firms as well as of different ownership-categories could be observed. Auxiliary industrial activities of agricultural enterprises has become very significant. In 1978 for instance 94 per cent of all state farms and 83,4 per cent of all agricultural cooperatives were engaged in some form of industrial activity, with a total number of workforce reaching 77 900 people. Half of the activities were vertical extension of agricultural activity.<sup>2/</sup> The other half was an answer to the sluggish adjustment of overcentralized industry to the demands of agriculture/in spare parts, in repairments etc/, and also of the population. Auxiliary industrial activities of agricultural units have become the nucleus of the currently spreading new forms of small-scale entrepreneurship.

Legal regulations of January, 1982 cleared the way to the establishment of several forms of small-scale enterpreneurships in the state, cooperative and private sectors, in production, trade, services and intellectual work alike.<sup>+</sup>

<sup>+</sup>For a summary of details of major regulations see /23/

Several factors have motivated the Hungarian Government when opting for this solution.

1. There is going to be a serious shortage of centrally allocated funds to meet a large portion of socially justified needs, as in the first half of the 1980's Hungary is in a period of cutting investments. Especially in the sphere of services there seems to be no other way of satisfying solvent demand than through the mobilization of the savings and also of the initiative of the population.
2. There seems to be no other way of helping <sup>some of</sup> the basic ills of large state enterprises. This is true "externally" i.e. from the point of view of supply of the large enterprise with spare parts and also "internally", since current /levelling/ wage regulation make it virtually impossible for them to organize within their gates overtime work, <sup>to the extent it is</sup> needed for seasonal demand, repairs etc. By creating "economic associations" within the firm; labourers can find extra earning through work in their own profession, even in their own workplace, whereas the enterprise can pay extra for additional work and can thus free itself from very expensive external sources /which - esp. in the sphere of repairs - is often not available at all/.
3. In a period of falling real wages salaries can be used as an incentive only if there is a possibility to spend it according to the needs and tastes of individuals.
4. In a period of budget-cuts and decreased industrial employment with shrinking employment possibilities in educational, research institutes and also with very slowly improving career prospects in industrial and budgetary mammoth-organizations, one way of utilizing pent-up energies of young people is to make it possible for them to try and make their own initiative at their own risk, but also for their own reward. One way of speeding up the innovation process is to let innovators to try to produce it themselves.

Emergence of small-scale entrepreneurship might divert some of the most industrious people away from large economic units. However, this also has its positive impact, since it induces large <sup>+</sup> Apart from the practical experience proved manifolded in recent years that in services diseconomies rather than economies of scale exist.



economic units to become more competitive. For instance, to differentiate according to performance, to promote according to meritocracy, rather than according to other criteria, to lay off inefficient labourers in order to be able to pay extra for the best performers, and - last, but not least - change their present, utterly conservative internal management structure and personnel policy, which resulted that in 1980 in Hungary among the upper and middle management the share of those possessing a university degree<sup>+</sup> accounted only for one third, whereas... from university graduates only 15,6 per cent was in some form of managerial position.<sup>25/b</sup>

It has to be added, however, that as a result of all these steps the number of industrial units increased by less, than 10 per cent between 1980 and 1982 /since amalgamations also took place/. In the first 9 months of 1982 most of new small-scale enterprises were established within the framework of socialist /state-run and cooperative/ organizations and only 7000 people were working in small-scale units, formed outside the socialist sector.<sup>18/</sup> This also shows that the overwhelming dominance of the socialist sector has been preserved.

#### Changes in the financial sphere

Beyond doubt, the far most important change in the financial sphere... was the introduction of the so-called competitive price system in January 1980 for about 60 per cent of industrial activities /i.e. for about 35 per cent of national income/. Whereas in 1968 the price system remained basically autarkic /i.e. it reflected domestic prime costs plus average profit/, from 1980 capitalist world market prices started to influence directly the internal price structure of the Hungarian economy. While in 1968 the chief aim was to increase the

<sup>+</sup>Till 1980 this number also included persons, who have earned their qualification in the 3 years course of the Evening University of Marxism-Leninism.

the share of free and minimum-maximum prices at the expense of fixed prices, the main purpose of the 1980 changes was different. Setting out from the premise that the basic choice under present Hungarian conditions can't be other than between a cost plus average profits type /i.e. traditional/ official price system and an export-profit-led official price system<sup>24/</sup> the second option was accepted. It means, that for a so-called leading enterprise, where the new pricing principle is most clearly applied, if more than 5 per cent of its output is exported to the West, the profit rate it can charge on the 5 per cent of its production can not exceed the profit-rate, actually realized in its sales for convertible currencies.

The main purpose of the introduction of this system was to exert deflationary pressure on the economy, as well as to apply - although in an artificial manner - the requirements of the world market on domestic production. It aims at exerting the pressure of the world market even in the lack of actual import-competition. At the time of the introduction of this price system it has been repeatedly stressed<sup>4/</sup>; <sup>20/</sup> that the above summarized solution is not a cristallized model; not a final solution, but a result of a compromise and it is of transitory nature. This was to be applied only for 2 or 3 years, and the success of this solution according to the above sources depends on Hungary's success to switch over to an actual market, and a corresponding market pricing system, and also to actual import-competition. It has to be added, that currently this change is not expected to occur untill the end of 1980's.<sup>6/</sup>

In sum, several widespread misunderstandings seem to be unjustified in this context. 1. The Hungarian price system of 1980 is not based on world market prices, but on domestic prime costs according to the average cost plus profits realized in convertible currency trade. 2. The Hungarian price system of 1980 is not a free market price system, where enterprises set prices according to their will; or the price is given for them through the changes of supply and demand. On the contrary: a large number of stricktly defined central rules apply to the ways and

also to the magnitudes of profits they can calculate. 3. This price system does not open up the economy to direct world market pressure, instead it is a substitute for actual import competition, since it tries to simulate what would happen if there were competition where there actually isn't.

There are some further enterprise categories /producing 65 per cent of national income in 1980/ whose share was on the increase since 1980. First, for several sectors domestic cost plus average profit type of pricing remained in force /such as for agriculture, transportation and the construction industry/. The two main groups are connected by those, who are "followers" to leading enterprises. Their prices in principle are derived from the prices of the leading units by means of setting "proportional" prices. Setting proportional prices is obviously not a very sound and exact economic method, and although this is done in principle by the enterprises themselves, the fact whether or not they have surpassed the limits set by the pricing rules and by the regulations concerning "unjustified profits" needs permanent supervision by the pricing organ. Of course a lot of room is left for bargaining, since again, price calculation is not an internal matter of the enterprise, who calculates for its own use, and whose calculations are accepted or corrected by market competition, consequently the act of calculation implies a sort of bargaining for incomes, as it is the enterprise and the pricing authority together who set prices. A fourth category of prices is those of raw materials and fuels. These are set on the basis of marginal costs, i.e. practically it means following capitalist import prices. The dovetailing of the four categories has not been an easy task, and the decision on what kind of category should an individual enterprise finally fall into was also a result of bargaining with the state hierarchy, since there was no objective basis to decide a number of individual cases.

Theoretical economists of different convictions have disputed the usefulness of introducing "competitive pricing" in the above summarized form from the very beginning. The system is artificial and is irresponsive to changes in domestic supply and demand. In fact, with institutionalizing enterprise categories and calculation

procedures that require continuous central supervision, in fact it was the category of free prices which has been abolished, while free prices constitute the heart of any market economic system. And although the incredible amount of extra bureaucracy brought about by the practical need to administer such a system was sharply criticized by the architects of the system itself<sup>5/</sup> this is a faint consolation, since bureaucracy is an inevitable product of a system, whose condition sine qua non is operative interference, because it lacks self-correcting automatisms.

Practical economists have rightly compared present Hungarian price regulations to the former Prussian legal system in the sense that the more detailed a regulation is deemed to be, the bigger the number of unregulated individual cases is.<sup>8/</sup> In fact, the basic pricing regulation / 6/1979.A.H./ had to be supplemented by a growing number of decrees on application and modification. As a result of the 5% construction itself, calculations of each leading enterprise has also got to be continuously supervised. It is not the invisible hand, but the price authority who ensure compliance with the "export price following" regulation. In order to avoid that cost-plus pricing be more advantageous for enterprises, a very low /4per cent/ profit rate was allowed to be calculated for them. Among the conditions of shortage economy and state ensured monopoly positions, of course the temptation and possibility to achieve a higher profit rate is very strong, so price supervision of cost plus pricing enterprises also had to be strengthened.

The above development lead to two things. 1. The dependency structure of enterprises from the state hierarchy has become more complex: plan bargaining and bargaining about individual tax-exemptions and subsidies has been supplemented by a third dimension, i.e. with bargaining about the rules /and application/ of pricing procedures. <sup>1/</sup> Since instead of actual import competition it is the regulation concerning export price following and on unjustified profits which exerts deflationary pressure, one of the basic principles of 1980 changes, that of normative/uniform/ financial regulation has systematically been broken. that is 2. Bargaining

about the ways of applying the large number of rules could not happen otherwise than in an individualized manner. This made actually possible according to practical economists the rebirth of those non-normative subsidies, which were to be wiped out, since both individual tax-exemption and individually practiced "tolerance" in applying pricing regulations aim at the maintenance of uncompetitive economic units.<sup>8/</sup>

The price system was this way in contradiction to the wage system and more importantly with the system of income regulation. Partly as a consequence of supporting non-competitive economic units, partly as a result of the financial organs' adjustment to the individualizing pricing practice the regrouping function of the state budget could not be limited. In 1981 for instance still about 75 per cent of enterprise income were connected with this activity.<sup>12/</sup> As the balance of payments situation remained strained, and since foreign economic equilibrium could be attained at a virtual stagnation of national income in 1979-81, the income needs of the state budget could only be covered by instituting a number of non-normative financial regulations in the course of the year.<sup>13/</sup> Such steps were the increases of certain taxes before the end of the fiscal year, first the freezing than the taxing away of the reserve fund of enterprises, an extraordinary speeding up of paying back credits to the bank, regardless of the formation possibilities of the development fund, and other measures.

#### Prospects till 1985

As it has been shown above, practical economic management has become more operative /directive/ ~~xxx~~ in Hungary under the pressure of different factors during 1979-1982. This is why it is truly of principal significance that the June, 1982 session of the Central Committee of the HSWP did not institutionalize transitory and ad-hoc changes, that were not in accordance with the logic of the

indirect system of plan-based management.<sup>26/</sup> On the contrary: the plenum opted for a comprehensive further perfectioning of the decentralized system of management, for the more consequent realization of the 1968 principles. The actual set of measures materializing the resolution are expected for 1985.

According to analyses of enterprise practice, management changes introduced in 1979-1982 were insufficient to change the main lines of enterprise behaviour. According to a series published in the party daily *Népszabadság*, enterprises who have come into difficult financial position in 1982 are much the same as the ones that were in difficulty in 1979 and also back in 1972. And what are the practical causes of current difficulties? Among the most important ones are unrealistic planning of developments in the medium term, especially on Western markets, large investments, realized in crisis-ridden industries, misforecasting domestic demand, neglect of exchange rate changes both in terms of the rate between the Forint and the US dollar, and among different convertible currencies, as well as poor organization and low working morale. How can it be - puts the justified question *Népszabadság* - that while in the world whole industries are closing down, in Hungary hardly any enterprise has declared bankruptcy?<sup>14/</sup>

It seems to have been proved by the developments of the last few years that in order to change Hungarian enterprise behaviour changes which are more thorough than the 1968 reforms are needed: along economic changes social, political and governmental reforms are also necessary.<sup>3/</sup> Among the economic measures the most important ones would be to find new ways and also new institutional forms of wielding the owner functions of the socialist state. This has to be organizationally separated from the bodies wielding administrative and public functions. Without such a change it is impossible to change what Kornai terms as the paternalistic relationship between the state and its enterprises<sup>15/</sup> and make state enterprises interested in profits rather than in other, non-economic "expectations". The problem of capital reallocation mechanism and the creation

of its adequate institutions has to be tackled with. Foreign trade should be freed from what Professor Bognár termed as "the primitive forms that have been dominating it since the early fifties."<sup>3/</sup> This would imply more sweeping changes than currently instituted small steps, such as the extension of legal forms of association and granting foreign trade rights to some 40 more economic units. Actual domestic and import-competition should become a basis for a price system, where supply and demand could be equalized without special intervention from above. A normative mechanism for the establishment, merger, dissolution and bankruptcy of enterprises is to be worked out in detail.

These are only some of the questions currently under scrutiny in Hungary. Scientific research workers, enterprise managers, party and government economists, trade union and Patriotic Front cadres participate in the discussions aiming at finding <sup>such</sup> new forms of plan-based management which are in accordance with Hungarian peculiarities as well as with the requirements of international competitiveness. I think, many of us would agree with Czechoslovak Deputy Premier Svatopluk Potáček, that the present slowdown in our economic growth has to do with the fact, that we were unable to adjust our planning and management methods to the needs of intensive development<sup>19/</sup>. In order to find the best solutions Hungarian economists are studying the results of economic science and the management practice of other socialist states. We hope, that a common effort might bring about better results than the practical outcomes of the 1970's. Beyond doubt, most of the work is ahead us.

Budapest, 15. November, 1982.

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5

ARRANGEMENTS FOR MINERAL DEVELOPMENT CO-OPERATION  
BETWEEN SOCIALIST COUNTRIES AND DEVELOPING COUNTRIES

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1. Raw materials situation in the European CMEA countries\*  
and the developing countries.

The minerals and fuels situation in the European CMEA countries, taken overall, is characterized by a high degree of self-sufficiency; in fact, the CMEA group as a whole is a net exporter of many important fuels and minerals /crude petroleum, natural gas, coal, copper, zinc, nickel, potash, etc./. This circumstance endows the CMEA community with a high economic security, the advantages of which become manifest especially in those periods when the commodity markets of the non-socialist world are characterized by imbalances and fluctuations and by a tendency towards increased politicization. In the 1970s, such tendencies unfolded with a vigour never experienced before on most of the commodity markets, but especially on the market of petroleum.

Mineral and fuel reserves are distributed rather unevenly among the European CMEA countries. Apart from the Soviet Union, known reserves of considerable significance are limited to a few minerals or fuels such as coal, copper, sulphur and zinc in Poland, lignite and potash in the GDR, coal in Czechoslovakia, coal, hydrocarbons and manganese in Romania, coal, lead, zinc and copper in Bulgaria, and coal, hydrocarbons, bauxite and copper in Hungary. The CMEA Six /the European CMEA countries excluding the Soviet Union/ are net exporters of hardly any fuels and minerals. For want of an adequate fuel and mineral reserve base, the expansion of mining in the 1960s could not keep abreast of the dynamic

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\* The European CMEA countries are as follows: Bulgaria, Czechoslovakia, German Democratic Republic, Hungary, Poland, Romania, Soviet Union.

growth of demand in any country of the CMEA Six group. The import dependence of that group increased, and the countries in question became net importers of fuels and minerals. In 1960s, there were still three net exporters of fuels and minerals in the European CMEA: the Soviet Union, Poland and Romania. Since 1965, however, only the Soviet Union has remained so.

Insufficient domestic mineral and fuel reserve bases moved the European CMEA countries to develop and expand intra-CMEA cooperation; the basis for doing so was the complementarity of the CMEA countries' mineral resources and mining capabilities, and the expansion potential of mining in the Soviet Union above all. Over the last three decades, intra-CMEA integration reached the greatest intensity precisely in the minerals and fuels sector of the member countries. As a result, in late-seventies intra-CMEA trade satisfied 70-75 per cent of the European CMEA countries' import demand in petroleum and petroleum products, 55 per cent in coal, 75 per cent in iron ore and 75 per cent in aluminium.<sup>1</sup>

All in all, the European CMEA countries' imports from outside the group are more or less marginal in the case of most fuels and minerals; this is why this country group faces no problems of supply security on the scale experienced by the developed market-economy countries. In the majority of the European CMEA countries, a traditional reliance on socialist resources was the outcome of economic rather than security-of-supply considerations. The system of intra-CMEA cooperation in the fuels and minerals sphere favoured those countries of the economic community which were net importers. Purchases of fuels and minerals from sources in the developed

Table 1

Fuel and mineral imports of the European CMEA countries  
from the developing countries, 1971-1980

Commodity group	1971		1975		1980	
	Million dollars	Percentage of overall fuel and mineral imports	Million dollars	Percentage of overall fuel and mineral imports	Million dollars	Percentage of overall fuel and mineral imports
Crude fertilizers and minerals (SITC 27)	47	14,5	271	27,4	256	12,6
Metalliferous ores and metal scrap (SITC 28)	163	22,5	327	21,0	577	27,7
Mineral fuels and related materials (SITC 3)	140	7,4	1686	22,5	4507	22,6
<del>Non-ferrous metals (SITC 68)</del>	<del>13</del>	<del>1,8</del>	<del>84</del>	<del>5,9</del>	<del>281</del>	<del>10,6</del>
Total fuel and mineral imports from developing countries	363	9,9	2368	20,7	5621	21,1

Source: Monthly Bulletin of Statistics, May 1977, United Nations, New York,  
1977, Monthly Bulletin of Statistics, May 1982, United Nations,  
New York, 1982.

market-economy countries have had, in addition to the quantity constraints imposed by a somewhat limited hard-currency buying power, also undesired repercussions on development policy, limiting the availability of financial resources needed for the procurement of modern technology from the West. Furthermore, the majority of the European CMEA countries have been, for a number of reasons /lack of finance and experience, fear of risk, insufficient domestic economic motivation/, reluctant to embark upon mining ventures in the developing countries. The only country striving purposefully for a strong diversification of its fuels and minerals supply has been Romania which has expanded its mining investment rather vigorously in a number of developing countries.

Fuels and minerals imports from the Third World have been of growing importance to the European CMEA group nevertheless, as indicated by the fact that the share of developing countries in the total mineral and fuel imports of the socialist countries increased from 9,9 per cent in 1971 to 21,1 per cent in 1980. (Calculated in value terms.)

The developing countries' share is especially high (27,7 per cent) in the case of metalliferous ores and fuels (22.6 per cent). (See Table 1.)

In 1980, the European CMEA countries imported from the developing world some 27 to 28 million tons of alumina, and significant quantities of rock phosphate, manganese and chrome ore, copper, zinc and lead. At present, the European CMEA group as a whole is a net importer of the following important mineral commodities: rock phosphate, bauxite, iron ore, tin and lead.

2. Evolution of co-operation for natural resources development between socialist countries and developing countries: the scope and institutional arrangements for organising East-South mineral development co-operation.

2.1. Technical assistance by the European CMEA countries to development of mining in the developing countries.

The true significance of cooperation in raw materials between the European CMEA countries and the developing countries is much greater than one would estimate purely on the basis of the comparatively restricted commodity flows. The European CMEA countries, which have a substantial experience and a sophisticated scientific-technical base in mining, provide in many a developing country a substantial assistance in the geological prospecting for natural resources, and in the creation or development of a national mining industry. Assistance rendered by the European CMEA countries encompasses activities such as planning; general geological surveying and exploration<sup>2</sup>; prospection for specific minerals; prospect drilling; laboratory essays and tests in one of the European CMEA countries; the creation of laboratories and prospecting institutions; the creation of training institutions in geology, geophysics and mining; the sending of training personnel and the supply of equipment to such institutions; training of the developing countries' specialist cadres at the universities and specialized schools of the European CMEA countries; technical management of nationalized mines and works; the supply of mining and mining-related machinery and equipment.

Mining capacities realized or being constructed in the developing countries with assistance from the European CMEA

countries permit the annual production, among other things, of some 60 million tons of crude petroleum, more than 20 million tons of coal and 12 million tons of iron ore. Plant constructed with assistance from the European CMEA countries processes 30 million tons of crude petroleum, and produces 30 million tons of steel products and 40 thousand million kWh of electric energy per year.<sup>3</sup> Table 2 shows, as of January 1, 1981 capacities of the developing country enterprises built and under construction with Soviet assistance. Between 1976 and 1980 these Soviet-assisted developing country enterprises have shipped to the USSR some 23 million tons of oil, over 40,000 million cubic metres natural gas, 12 million tons of bauxite, and considerable quantities of ferrous and non-ferrous metals and various chemical products.<sup>4</sup>

The European CMEA countries have provided or are providing assistance - among others - for the development of a petroleum refining industry in Colombia, Egypt, Ethiopia, India, Iraq, Mauritania, Syria; for the development of natural gas production in Afghanistan, Iran, Pakistan etc.; for the development of phosphate mining in Iraq, Syria, Morocco; for the mining of iron ore in Afghanistan and India, etc.; for the development of bauxite mining and the aluminium industry in Algeria, Costa Rica, Egypt, Guinea, Guinea-Bissau, Indonesia, etc.; for the mining and refining of copper, lead, zinc and other non-ferrous metals in Afghanistan, Algeria, Congo, Mali, India, Somalia and other countries.

## 2.2. Compensation deals

In mining cooperation between the European CMEA countries and the developing countries, a form of cooperation on



Table 2

Capacities of Enterprises of Soviet-aided Projects  
in Developing Countries (in million tons as of  
January 1, 1981)

	According to the agreements signed	Became operational
Coal produced	50,27	4,80
Oil processed	23,00	11,63
Pig iron	26,95	10,77
Steel	26,10	9,73
Electric stations (fixed power in million kW)	19,37	7,37

Source: Ivan Kapranov, "Growing Cooperation", Foreign Trade,  
Moscow, No. 6, 1981, p.8.

the legal-contractual basis of so-called compensation agreements is gaining increasingly wider ground. The essential feature of this form of cooperation is that the European CMEA country involved is compensated for its direct financial and technical contribution to the development of one of the mining branches in a developing country by deliveries of the product of the mineral sector in question. The large-scale compensation agreements as a rule involve the provision of credits by the European CMEA countries to the developing countries concerned. These compensation-related "target" credits as a rule, are provided for 10-15 years with 2-3 per cent interest rate and a grace period of 1-3 years.<sup>5</sup> The benefits of such long-term agreements may be substantial for both parties involved: the developing country receives a technical and financial contribution to its national mining industry and, simultaneously, gains access to a stable market for its product which then provides the opportunity to repay the credits; the CMEA country in its turn acquires a reliable, stable source of supply against products and services largely produced by its own domestic industry.

Up to the late 1970s, the European CMEA countries have contracted a number of compensation deals with the developing countries.

Prominent among the compensation deals in both size and importance is the Soviet-Moroccan phosphate agreement, signed in March 1978, often referred to as the "deal of the decade". The development and exploitation of the rock phosphate deposit of Meskala requires financing to the tune of some \$2 billion. By the terms of the agreement, the Soviet Union

extends to Morocco a long-term credit on easy terms /3.5 per cent interest, a repayment period of 17 years after a grace period of 5 years/. The Soviet Union as the prime contractor is to construct an open-cast rock phosphate mine at Meskala with the attached transportation infrastructure, including harbour facilities on the Atlantic seaboard, and will also contribute to the expansion of a mine already in operation. In procuring the machinery and equipment for the mine, purchases from Soviet sources are not stipulated: they can be ordered also from third countries /against the Soviet credit facility/, provided they are more competitive or if the Soviet offer is incompatible with Moroccan standards or conditions. The agreement is to run for 30 years, over which period Morocco will export phosphate rock, phosphate fertilizer and phosphoric acid to the Soviet Union; partly under separate long-term supply agreements. Once fully on stream, phosphate deliveries to the USSR will amount to 10 million tons per year by 1990. The build up to this level is expected to start in the mid-1980s when the Meskala first stage enters production. The USSR has contracted to take 2 million tons initially, rising to 10 million tons. The Soviet Union will pay for any Moroccan phosphate deliveries over and above the quantity supplied in debt repayment by deliveries to Morocco of crude oil, timber, potash and nitrogenous fertilizer. The Soviet Union will have no ownership share in the project.

This agreement is the largest-scale cooperation project of the Soviet Union in the Third World. It is a particularly striking example of the realization of mutual benefits, as it

helps to substantially expand the export capabilities of Morocco for a reliable market and to greatly reduce the phosphate supply difficulties now existing within the European CMEA and to increase the Soviet fertiliser production.

It is under an analogous compensation deal that the Soviet Union participated in the development of bauxite mining in Guinea. By the terms of the agreement, concluded in 1969, the Soviet Union undertook the creation of a complete bauxite mine of 2.5 million tons per year capacity between 1970-1973, in the Kindia district, together with the attached transportation (100 km long railway) and shiploading infrastructure in the port of Conakry, the residential settlements, etc.); it also guarantees a permanent market for 30 years for the product by taking as the countervalue of Soviet deliveries and services, and also under a separate commercial deal, some 90 per cent of the output of the mine. (50 per cent of the output goes to repay the Soviet Credit, 40 per cent is supplied to the USSR under separate commercial agreement and 10 per cent remains at the disposal of Guinea.) The Soviet Union granted 83 million Ruble to Guinea with a repayment period of 12 years; the repayment - in annually equal proportions - started after one year of the first Guinean deliveries to the Soviet Union.<sup>6</sup>

As envisaged by the agreement, the Kindia mining complex started the production and deliveries to the USSR in 1974 and topped its rated capacity as early as 1976. The mine and the connected facilities have been 100 per cent Guinean government property from the very start of the project, and

constitute one of the largest and most profitable public enterprises. The bauxite-mining complex in Kindia has become a school of local personnel for the country's young and rapidly growing mining industry. During the construction of this complex, over 2,000 citizens went through the training centre set up there to become drivers, shovelmén, welders, fitters, etc.<sup>7</sup>

In 1978, India signed an alumina cooperation deal, by which the Soviet Union is to prepare engineering designs for a 600,000 - 800,000 tons per year alumina refinery and is to participate in the construction of the plant in Shakhapatnam. The Soviet Union is to supply equipment and know-how, as a countervalue of which it is to receive 300,000 tons per year of alumina for several years. More recently, India has asked the Soviet Union to grant credit of \$560 million in return for taking over by the Soviet side almost the total output of the alumina plant. The 560 million dollar credit would finance nearly the total investment cost. At the early 1982 the USSR has agreed to finance only 40 per cent of the planned investment expenditures and it is considering the possibility of higher soviet share of financing.<sup>8</sup>

It was under similar compensation deals that the Soviet Union contributed - among other things - to the development of natural gas production and transport in Iran and Afghanistan. Iran concluded in 1966 the agreement concerning the construction of the first trans-Iranian gas trunkline. The Soviet Union extended a long-term credit to Iran, carried

out geological prospecting, supplied equipment to and seconded specialists for the construction of the trunkline; Iran is to repay its debt by gas deliveries from 1970 through 1985. The largest natural gas field in Afghanistan was completely equipped with machinery and equipment of Soviet origin: the gas trunkline linking Afghanistan with the Soviet Union was put onstream in 1970. Afghanistan repays the Soviet technical and economic assistance with deliveries of natural gas. Cooperation between the Soviet Union and Iraq in the petroleum industry looks back upon a long history. Its first aim was the joint development of the North Rumelian oilfields. The output capacity of those fields has attained 42 million tons per year. A new agreement signed in 1979 envisages contributions by the Soviet Union to the development and exploitations of some other oilfields also. By the terms of the agreement, the Soviet Union is to supply production equipment, the Soviet Union is to supply production equipment and send specialists to Iraq, and is to take from this country some 6 million tons per year of crude in compensation.

Romania participates in Tunisia in the exploitation of the Gafsa rock phosphate deposits and in the development of the attached transportation infrastructure, against part of the phosphate produced there. Czechoslovakia, Bulgaria, Romania and Poland participate in the exploitation of the rock phosphate deposits of Egypt under compensation agreements. Under these agreements, Romania and Poland have already received deliveries of larger quantities of Egyptian rock phosphate. It is under similar cooperation agreements that

Bulgaria participates in the development of the Angolan rock phosphate resource, and Romania, Poland and Bulgaria in the development of the rock phosphate deposits of Syria. Jordan envisages the conclusion with the Soviet Union of a contract similar to the Soviet-Moroccan phosphate agreement, involving the elaboration by the Soviet partner of the engineering designs for developing a deposit and for the construction of a processing plant, and their realization and financing by the Soviet Union against phosphate deliveries in scheduled quantities.

It is under compensation agreements that Czechoslovakia and Hungary participate in the development of the petroleum industry in Iraq, and the Soviet Union in Libya. Romania has undertaken the geological prospecting of iron and non-ferrous ores in the Atlas Range of Algeria, against Algerian iron ore deliveries. It was with Soviet assistance that mercury production and processing was developed in Algeria; as a compensation for the contribution, Algeria supplies mercury to the Soviet Union.

Recently, a compensation agreement has been concluded between the German Democratic Republic and Mozambique, by the terms of which Mozambique will supply coal over a longer period to the GDR as a countervalue to the technical and economic assistance by the latter to the development of coal mining in Mozambique.

### 2.3. Joint ventures

Joint ventures are a closer form of cooperation than

compensation agreements. In a joint venture, both the European CMEA country enterprise and the developing country enterprise have equity participation. Legally, most of these ventures have the form of joint stock companies. In the developing countries wholly-owned CMEA country companies are rare: most of the mineral investments are in jointly-owned companies in which the socialist stake represents an equal or (in most cases) minority holding. This practice is in contrast with the ownership structure of majority of advanced market-economy country mineral investments in the Third World. Thus CMEA country mineral investments in developing countries are on the whole more accurately termed "joint ventures" than subsidiary companies and the application to them of the term "direct investment" needs corresponding qualification.<sup>9</sup>

At the end of 1978 there were 185 CMEA country companies operating in the developing countries in which companies of European CMEA countries had equity participation.<sup>10</sup> As Table 3 shows, of these, 51 were engaged in the extraction and processing of raw materials (including fuels). A majority of CMEA country companies More than half of the CMEA companies operating in the production of goods were engaged in resource development. Table 4 shows that at the end of 1978 resource developments accounted for 64 per cent of the total invested capital of the CMEA country enterprises and 92 per cent of the estimated fixed assets of these companies. This reveals that participation in resource-development projects, providing access to raw materials in return for CMEA industrial technology, have been a major objective for CMEA country companies. The rather resource development-oriented nature of CMEA country investments in the Third World



Table 3

Distribution of CMEA Country Companies in the Developing Countries by Principal Activity, end-1978

Principal activity	Comecon country						Soviet Union	Total
	Bulgaria	Czecho-slovakia	GDR	Hungary	Poland	Romania		
Marketing only	4	5	0	5	4	4	0	22
Marketing and distribution	0	0	0	0	2	1	2	5
Marketing and servicing	1	0	0	0	0	1	4	6
Manufacturing and assembly	3	9	0	14	10	7	2	45
Extraction and processing of raw materials	4	1	0	1	10	29	6	51
Financial services	1	0	0	0	1	1	4 <sup>a</sup>	7
Transportation services	2	0	0	4	3	1	4	14
Technical services	2	2	0	6	2	5	0	17
Consumer services	1	0	0	0	0	0	0	1
Unknown	3	7	1	1	2	0	3	17
Total	21	24	1	31	34	49	25	185

<sup>a</sup>- Includes two branch offices of Moscow Narodny Bank located in Lebanon and Singapore.

Source: Carl H. McMillan, "Growth of External Investments by the Comecon Countries", The World Economy, No. 3, 1979, p. 369.

Table 4

Estimated Values of Invested Capital and Fixed  
Assets of CMEA Companies in the Developing Coun-  
tries, end-1978 (\$ million)

<u>Principal activity</u>	<u>Invested capital</u>	<u>Fixed assets</u>
Marketing	10.8	29.7
Manufacturing	36.0	202.5
Resource development	172.8	3,576.4
Financial services <sup>a</sup>	13.2	0.9
Transport services	28.8	62.0
Other services	8.8	30.8
Total	270.4	3,902.3

<sup>a/</sup> Does not include capital or assets of the branches of the Moscow Narodny Bank in Beirut and Singapore.

Source: Carl H. McMillan, op. cit., p. 371.

is in sharp contrast with CMEA investments in the advanced market-economy countries where the CMEA enterprises' primary objective is to promote exports to these markets and thus the principal activity of the large majority (70 per cent) of CMEA country companies in the OECD countries is marketing.<sup>11</sup>

As implied - among other things - by Table 3, the reliance of the individual European CMEA countries on joint equity ventures in the mining and mineral processing sector of the Third World is characterized by important inter-country differences. Most active in the establishment of jointly-owned resource companies is Romania; at the end of 1978 29 out of whose 49 joint-venture companies were in the raw materials extraction and processing sector. In the joint business ventures of Hungary and Czechoslovakia (and of the German Democratic Republic which is generally inactive in the creation of joint ventures in the developing countries but not in the OECD areas), investment into minerals extraction and processing is insignificant. Poland, the Soviet Union and Bulgaria take up intermediate positions: 20 to 30 per cent of the joint venture companies they have created in the developing countries are in the minerals sector.

Experience gained in the creation and operation of joint companies is not assessed uniformly by all European CMEA member countries; one of the reasons for this being the differences in risk-taking propensity between the individual countries. Several European CMEA countries regard investment in minerals extraction and processing in the developing countries as too high risk. Those countries or-

ganically embedded into the raw materials cooperation within the CMEA perceive less of a need for extensive raw materials ventures outside the community. The individual countries of the European CMEA differ also as to domestic mining experience, scientific-technological background and mining equipment manufacturing capabilities, which can be used as inputs in developing country investments.

Romania's vigorous entrepreneurial activity in the developing countries refutes the rather widespread view that a country with a limited domestic economic potential cannot pursue a comparatively large investment activity abroad. In view of the favourable experience so far, in the late 1970s it has been envisaged in Romania, in the interest of expanding minerals supplies, to assign a greater importance to mining investment in the developing countries.

In the minerals-related enterprises created with Romanian participation in the developing countries, Romanian equity participation varies from 10 to 49 per cent as a rule. The major part of the Romanian contribution is in the form of deliveries of machinery and equipment and various scientific-technical services; a minor part is in the form of convertible currency contributions. In Peru, the Romanian company Geomin and the Peruvian company Mineroperu created the joint venture company Antamina for the purpose of surveying and extracting some of Peru's copper and zinc reserves. The equity share of the Romanian partner is 49 per cent. The Romanian side prepares plans, project documentation and engineering designs, carries out geological exploration, provides technical assistance and delivers mining machinery and equipment as its contribution to the joint

venture. In Burundi, Romania founded in 1977 the joint company Somiburom with a view to prospecting for and extracting non-ferrous ores. In Kenya, the Romanian company Geomin founded in 1976 a joint company named Kenya Mining Industries, whose brief is the development of lead, zinc and silver production in the African country. In Tanzania, a Romanian-Tanzanian joint venture named Besaminco discovered a number of non-ferrous ore deposits on the Indian Ocean seaboard and participates in the extraction and utilization of heavy-mineral sands. A joint company Scaromines is engaged in the prospection, production and processing of gold, diamonds and gemstones in the Central African Republic. The Romanian-Zambian company Mokambo is extracting copper in Zambia. In the Malagasy Republic, Romania in 1978 created a joint company with a view to extracting the iron ore reserve of that country. Romania has a 10 per cent share in the subscribed capital of the joint venture. In the Belinga iron ore mine, under construction in Gabon, Romania acquired a five per cent equity participation. The Romanian company Geomin created a joint company with the Syrian company Gecophan with a view to a joint exploitation of the rock phosphate deposits of Khneifiss. Recently, a Romanian-Algerian joint venture was created in Algeria, for the purpose of developing new oilfields.

#### 2.4. Long-term supply agreements

In the last two decades, the importance of international mineral commodity trade under long-term supply agreements has increased substantially in the world economy. This type of cooperation mechanism, which may cover from 10 to 20 and even 30 years, may take a variety of forms. The concrete

understanding between the partners may involve anything from a straight commercial deal through barter-like countertrade to forms which include also credit arrangements and technical cooperation between the partners. These contracts provide a far greater stability /security/ to both partners than sales and purchases on the free market, and permit the importing partner to procure minerals on terms less risky than direct investment abroad. Long-term supply agreements are apt to forge comparatively close ties between the exporting and the importing partner, and are apt to substantially restrict and even to exclude the role of middlemen.

In minerals cooperation between the European CMEA countries and the developing countries, too, long-term supply agreements are acquiring a growing importance. In concrete economic practice, various forms of such agreements are encountered. Between Poland and Brazil, fairly comprehensive long-term barter-type agreements are in vigour, by the terms of which Poland, among other things, supplies coking coal to Brazil against Brazilian iron ore deliveries. In 1978, Poland concluded an agreement with the Moroccan Office Chérifien des Phosphates, by which Poland receives 500,000 tons per year of rock phosphate from Morocco against deliveries of sulphuric acid plant. By the terms of a Polish-Tunisian phosphate agreement, Poland is to receive 300,000 tons per year of rock phosphate against deliveries of complete industrial plant. In 1978, Poland concluded a long-term oil supply agreement with Libya, under which Libya from 1979 on pays in scheduled quantities of oil for services in building construction and contributions to power station construction ex-

tended by the Polish party. In 1976, Poland concluded an agreement worth \$40 million with Mexico, by the terms of which Mexico supplies Poland with crude oil and liquefied natural gas against coal mining machinery, equipment and know-how. Brazil and Romania concluded a long-term iron ore supply agreement for the period 1975-1985. Under the agreement, Romania is to receive a total quantity of 25 million tons of iron ore from Brazil against deliveries of metallurgical equipment.

The long-term minerals supply agreements between the European CMEA countries and the developing countries often involve credit deals by the terms of which the CMEA country involved extends commercial credits to the developing country or provides a variety of technical services on credit. Czechoslovakia extended a credit facility of \$50 million to Morocco, under which it expands its deliveries of machinery and equipment to Morocco and receives mainly rock phosphate in counter-value. Bulgaria extended a credit of some \$35 million towards the geological prospecting of phosphate deposits in Tunisia, their extraction and the construction of a concentrator. (Part of the Bulgarian credit was financed by the International Investment Bank of the CMEA.) The credit is repaid by Tunisia by means of long-term phosphate supplies. Romania in 1965 signed a ten-year petroleum supply agreement with Iran, worth \$100 million, involving payments in Iranian petroleum for oil industry equipment supplied on credit by Romania. Czechoslovakia in the late 1960s concluded a credit agreement worth \$200 million with Iran, by which Iran was to

pay by deliveries of 15 to 20 million tons of crude petroleum for Czechoslovak supplies of industrial equipment and complete plant. Under a credit agreement concluded between Bulgaria and Iran, Bulgaria is paid largely in petroleum for deliveries of light manufacturing and food industry equipment. By the terms of a bauxite cooperation agreement between the GDR and Guyana, the GDR supplies the state bauxite mining company of Guyana with machinery and equipment; in exchange, the GDR is to receive 30,000 tons per year of bauxite from 1979 on, a quantity that may be increased later on. It is under long-terms supply agreements combined with credit cooperation that the Soviet Union participates in the development of iron ore, non-ferrous ore and mercury mining in Algeria and of tin mining in Bolivia. The GDR, Hungary and Czechoslovakia participate in the development of non-ferrous ore mining in Peru under long-term supply agreements.

#### 2.5. Multilateral cooperation

This form of cooperation in the minerals sector must be regarded as the least developed in the relations of the European CMEA countries with the developing countries. Whereas the CMEA member countries among them are organizing their cooperation in the fuels and minerals sector under the signs of ever deeper integration and growing multilaterality, economic and technical assistance to the development of mining in the developing countries goes on in an essentially uncoordinated fashion, although the large amounts of capital required as a rule by mining projects, the need to solve complicated techni-



cal problems and to spread the economic and political risk, if any, would make it both reasonable and desirable to unite the efforts of the European CMEA countries with a view to a more multilateral approach.

Experience so far has shown that many a developing country will offer opportunities of cooperation in the extraction and utilization of such minerals as are sought for also by the European CMEA countries. In a large number of cases, however, these offers are not taken up: no ventures are created in the sequel, mostly for reasons of organization and financment. There often arise problems of financing which remain unsolved only because the finance required exceeds the capabilities and the risk-taking propensity of any single interested European CMEA country.

In one form of multilateral cooperation, a company of one of the European CMEA countries participates in mineral sector development in one of the developing countries, in cooperation with companies of developed market-economy and/or developing countries. In 1979, a tripartite cooperation agreement was concluded between the Polish company Polimex-Cekop, the Japanese companies Marubeni and Hitachi, and the Algerian company Sonatrach concerning the construction of two phosphate fertilizer factories in Algeria. Under the agreement, the Polish and the Japanese companies are to construct the factories together; the Japanese party is to deliver the phosphoric acid plant equipment. The Japanese Export-Import Bank guaranteed a credit of \$388 million towards the venture. The output of the two factory complexes, to come on stream in

1982, will satisfy Algerian demand for phosphate fertilizer, and even produce a substantial quantity of processed phosphate for export. Czechoslovakia concluded an agreement with Iraq concerning the construction of a petroleum refinery of 3.5 million tons per year capacity, together with the pipeline network required. In 1979, the Siemens company of the FRG was co-opted into this deal as a supplier of electric engineering goods. Romania is a member of an international consortium, including numerous companies of developed market-economy countries, formed to prospect and extract the nickel resource of Burundi.

### 3. Prospects of East-South mineral development cooperation

#### 3.1. Factors affecting the future of mineral cooperation

The disturbances in the fuels and minerals sector, emanating from the capitalist world economy in the 1970s (the price explosion above all), have not left the countries of the European CMEA unaffected. They had an immediate and direct influence on intra-CMEA trade and the economies of the European CMEA countries through those countries' imports of fuels and minerals from the non-socialist markets, and an indirect and somewhat retarded one through their effects upon certain elements of intra-CMEA cooperation in the minerals sector (especially upon the pricing system). It would, however, be wrong to conclude that the current fuels- and minerals-related problems of the European CMEA countries are due exclusively to these external influences.

These have in fact merely grafted themselves onto prior problems of a regional system of fuels and minerals supply in which certain longer-term disharmonies and tensions were to be perceived even prior to the price explosion.<sup>12</sup>

Furthermore, the surges in the world market prices of fuels and certain minerals and metals found the European CMEA countries in a situation in which they were compelled to import larger quantities of fuels and minerals, as the scope for expanding their imports from the other European CMEA countries had become somewhat constrained. This statement holds especially for petroleum imports from the Soviet Union.

This situation elicited a variety of fuels and minerals policy responses from the European CMEA countries:

(1) An expansion at accelerated rates of the domestic fuels and minerals bases became a clearly stated policy target. It must, however, be perceived that in none of the European CMEA countries did the priority assigned to domestic fuel and mineral resource development lead to a general, across-the-board reduction in the dependence on external sources of fuels and minerals: it merely slows the further increase of their import dependence in regard of certain commodities. Except for the Soviet Union, dependence on imported energy and fuels increases in every European CMEA country. Poland, the only net exporter of energy of the group outside the Soviet Union, will also become a net importer according to its long-term plans. One estimate states that the aggregate energy self-sufficiency of the CMEA Six (the European CMEA countries with the Soviet Union excluded) will decline from 70 per cent in 1975 to 50 per cent in 1990.<sup>13</sup> In several of the socialist

countries, the expansion of domestic fuels and minerals production is limited by inadequate or incomplete domestic fuels and/or minerals reserves, as well as by the extreme capital intensity and high cost of incremental mining investment.

(2) The large rises in the import prices of fuels and minerals and the overall hardening of the terms of purchases within the CMEA have compelled the member countries to pay much more attention than heretofore to the demand side of the fuels and minerals equation with a view to reducing the rate of growth of demand, in contrast to the one-sided supply-oriented approach of earlier times. The anticipated volume of raw materials and energy imports from the developing countries will depend to a significant extent on the success of raw materials and energy policy in holding down the rate of increase in consumption and on the growth rate of the CMEA economies. Given the current situation in the majority of the European CMEA countries (industrial structure, level of technological development, management system, etc.), a persistent and significant reduction of the inputs of energy and mineral commodities per unit of national income, sufficient to offset the relatively slower expansion of intra-CMEA supplies, looks improbable. However, if the policy efforts directed at moderating the rate of increase in demand - with appropriate structural, technological and management system changes - prove successful, the CMEA countries will need to import a relatively smaller volume of raw materials and energy from the developing countries. The comparatively substantial slowdown in the economic growth rate of the CMEA countries will also act in this direction in the eighties. The demand for energy

and mineral commodities will continue to grow comparatively rapidly in the European CMEA countries, faster than in the world at large.

### 3.2. Perspective possibilities and conditions of mineral supplies from CMEA sources.

The energy and minerals situation within the European CMEA had become more complicated by the early 1980s; the costs to the net importers of their purchases of these commodities from the other CMEA member countries had greatly increased, and it had become more difficult to expand imports within the traditional framework of trade arrangements. Maintaining basic fuels and minerals supplies at current levels faces harder conditions after 1980, including compensation by "hard" commodities (goods readily marketable on the world market) and the increasingly "hardening" conditions of ensuring deliveries of any incremental amounts. The Soviet Union as the main supplier of energy, fuels and minerals to the other European CMEA countries perceives a capital availability (internal accumulation) limit as the principal obstacle to expanding its deliveries of those commodities, and makes the expansion of its exports contingent - within limits - upon the removal or mitigation of this obstacle. The Soviet Union accordingly requests the other member countries to help solve its investment problems connected with an export-orientated with an export-orientated expansion of its mining capabilities.

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further difficulties in raw-material and energy imports from CMEA sources until 2000. The general CMEA-level shortage of these commodities will further increase, and they will become even harder commodities. The quantitative limits to imports from CMEA sources will make themselves felt more vigorously than before, the cost advantages of these imports relative to non-socialist imports and to the development of domestic mining will, in general, substantially diminish, and in certain cases even discontinue.<sup>15</sup>

The increasing difficulties of CMEA-based imports are basically connected with the specific development problems of Soviet mineral mining and with the inadequacies of CMEA mineral co-operation.

The growth rate of several branches of the Soviet extractive industry will likely diminish during the period until 2000, which in turn will, in most cases, constrain the expansion rate of exports, too. For two opposite cases, the oil and natural gas, see Tables 5 and 6. The fall in the growth rate of Soviet raw-material and energy exports to CMEA countries is due to the following major factors:

(1) The shift to Trans-Ural regions of the centres of production of the basic sectors of the Soviet extractive industry will speed up in the period under review, with a steep rise in marginal production costs. This will require such an immense need for development capital as the country, relying on own resources at a time of relatively moderate increase in national income, can hardly be exported to meet. Reliance on foreign loans may be substantial in relation to several developed market-economy countries, but in relation to the

Table 5

A Projected Development of Soviet Oil Production, Consumption  
and Exports  
/million tons/

	1973	1980	1990 <sup>1</sup>
Production	432	602	645
Consumption	328	443	513
Exports	117	160	132
Exports to Eastern Europe <sup>2</sup>	55 /47%/	70 /44%/	80 /61%/
Exports to Western Europe <sup>2</sup>	48 /41%/	66 /41%/	25 /19%/

Secretariat of Economic Commission for Europe.

2) Figures in brackets represent share in total exports.

Source: The Energy Economy of Europe and North America.

Prospects for 1990, Economic Bulletin for Europe, The Journal of the United Nations Economic Commission for Europe, June 1981, Pergamon Press, Oxford, p. 233.

Table 6

A Projected Development of Soviet Natural Gas Production,  
Consumption and Exports  
/10<sup>18</sup> joule/

	1973	1980	1990 <sup>1</sup>
Production	8,3	15,3	26,4
Consumption	8,5	13,7	22,2
Exports	0,3	1,8	4,5
Exports to Eastern Europe	0,2 /67%/	0,8 /44%/	1,6 /36%/
Exports to Western Europe	0,1 /33%/	1,0 /56%/	2,9 /64%/

1) Estimate of the secretariat of Economic Commission for Europe.

2) Figures in brackets represent share in total exports.

Source: The Energy Economy of Europe and North America, op.cit., p. 167.

other CMEA countries, especially in a situation when the intra-CMEA terms of trade will presumably change in the future in favour of the Soviet Union and, consequently, a substantial need for consolidation credits will arise in the net resource importing countries, may hardly mitigate, to any appreciable extent, the accumulation burdens of the Soviet Union. As a result, the export-oriented expansion of Soviet mineral mining is likely to encounter the constraint of limited development capital in the period under review.

(2) In certain cases (e.g., petroleum), the expansion of exports is also limited by reserve availability problems.

(3) The technological problems of mineral mining confronting more and more difficult geological and climatic circumstances.

(4) Increasing bottlenecks in transporting raw materials and energy owing to the shift towards east of the geographical centre of extraction.

(5) The Soviet Union - in most cases - is likely to maintain in its resource exports the proportions established in the 1970s between the Eastern European CMEA countries and the developed market-economy countries, and over the long term will probably not expand its exports to CMEA countries to the detriment of its non-socialist exports. Parallel with the shifting towards Eastern regions of the extractive and partly of the manufacturing industry, an upswing is expected in the "Eastern" trade of the Soviet Union, that is, a dynamic expansion of its raw-material and energy exports to Japan, South-East Asia and possibly North America. This may influence the country's export capabilities vis-à-vis the



European countries and even the internal supply in the European part of the country.

(6) In view of the falling growth rate of raw material and energy production, the trade-off between preferring exports and satisfying the relatively dynamically expanding domestic needs will probably be even more pronounced. In an economy with high specific raw material and energy consumption, the artificial reduction of (or the costly substitution for) domestic use in the interest of exports may involve serious growth-impeding effects. Hence, the country can, in the years ahead, probably give priority to exports only at the expense of domestic economic sacrifices greater than those experienced in the past. Therefore, export priority is likely to subside in areas where the above problems appear to be most pronounced.

(7) A deepening of integration in the extractive industry is unlikely to take place within the CMEA in the period under review to such an extent that it could make intra-CMEA resource flows significantly more dynamic. The implementation of long-term raw-material and energy target programme seems to be constrained by the insufficient financial resources for joint co-operation projects. A massive reliance on non-CMEA financial resources would result in an inadmissibly large increase in indebtedness, and therefore this alternative may be excluded. In addition, the energy target programme is nuclear power-centric and did not envisage major cooperation in the satisfaction of the demand for petroleum and natural gas.

### 3.3. The possibilities and conditions of resource supplies from developing countries

From what has been discussed in the previous section

one may draw that conclusion that the faster the increase in the supply costs of raw materials and energy imported from CMEA sources, ceteris paribus, the higher the relative profitability of imports from alternative sources. Our projections indicate that in the case of several major fuels and minerals the rise in the share of non-socialist countries/mainly developing countries/ in meeting of East European import needs would become inevitable in the period until 2000. This applies to petroleum, natural gas, iron ore, phosphate rock and coal. For some commodities the projected 1990 import needs from non-CMEA sources is shown in Table 7. The forecast for CMEA imports of raw materials and energy from developing countries in 1990 has been prepared in two variants: (1) assuming that the efforts for demand management improved conservation performance) will not produce the desired results; (2) assuming that the efforts to moderate the increase in demand will prove successful; the growth rate of raw materials and energy consumption will slow down considerably and there will be a marked improvement in specific input use.

#### 3.4. The need and means for improving the mechanisms of East-South cooperation in the raw materials sector

The need for a certain degree of extroversion in the fuels and minerals supplies of the European CMEA countries requires a broadening of scope and a modernization of the mechanism of cooperation in the raw materials sector. In most of the European CMEA countries, however, a great deal of incertitude still prevails concerning the ways and means of fuels and minerals procurement from the developing countries.

Table 7

Tonnage and value forecast for 1990 of the imports of certain key mineral commodities  
by the European CMEA countries from the developing countries

	Quantity (million tons)		Price (\$/ton)		Value (\$ million)			
	Variant I	Variant II	current dollars	1977 dollars	Variant I current dollars	1977 dollars	Variant II current dollars	1977 dollars
Petroleum	80-100	65-70	500	265	40 000- 50 000	21200- 26500	32500- 35000	17200- 18500
Natural gas	30-40 <sup>+</sup>	25-30 <sup>+</sup>	-	-	-	-	-	-
Copper (metal)	100 <sup>++</sup>	80 <sup>++</sup>	4 740	2 300	470	230	380	180
Bauxite	4-6	3.5-4	67.8	32.9	270-407	130-200	240-270	115-130
Iron ore	30-40	25-30	51.6	25.0	1540-2060	750-1000	1300-1540	625-750
Phosphate rock	15-20	15-20	78.5	38.0	1170-1570	520-700	1170-570	520-700

+ = (10<sup>9</sup> m<sup>3</sup>) - - - ++ = (10<sup>3</sup> t)

Variant I: unsuccessful demand limitation policy.

Variant II. Successful demand limitation policy.

Source: Own estimate. See Economic Relations between the European CMEA Countries and the Developing Countries and their Role in Development, Institute for World Economy,

Project Directed by József Bognár, Budapest; 1980, p. 91.

If the mineral imports is to grow substantially as expected, then one-off, short-term commercial deals will prove less and less suitable for handling the increased turnover. The aim being to trade quantities that cannot be regarded as marginal any more, short-term straight commercial deals would not only hamper import purchases at times, in function of the market situation prevailing, but the CMEA countries in the aggregate would thus come to exert rather a strong market-modifying influence, implying price fluctuations strong enough as it is on world commodity markets.

Every essential factor militates for the European CMEA countries to organize their procurement of fuels and minerals from the developing countries on a stable long-term basis to the maximum possible extent. Given the fluctuations of the fuels and minerals markets, this type of cooperation may provide adequate economic security to both the buyer and the seller. This approach necessitates the establishing of closer ties between importers and exporters. In this respect, it is indicated to build upon the favourable experience accumulated in several European CMEA countries and developing countries in the course of implementing compensation deals, long-term supply arrangements and joint ventures.

Fuels and minerals contacts between the European CMEA countries on the one hand and the developing countries on the other must extend to a much greater degree than heretofore to direct cooperation in technology, production, processing and marketing. It is necessary to rely, more broadly than heretofore, upon such closer forms of cooperation in production as compensation deals, joint ventures, international

consortia, service contracts, etc.

Over and above creating long-term foundations for raw materials supplies, the more sophisticated forms of cooperation in production tend to prove beneficial to both parties, especially in those cases where the project constituting the object of cooperation is capable to produce a commodity at a total cost lower than the world market price. Whether this is in fact possible depends, to a not insignificant extent, on how far the economic management mechanism of the developing country and a number of other features of its public sector permit the organization of joint production under the sign of maximum rationality. Experience has revealed that the weaknesses of the management mechanism within the state sectors of the developing countries may occasionally hamper the normal running of cooperation ventures involving one or more CMEA partners. A more steadfast and rational management order in the state sector would make direct production cooperation in the minerals and fuels sector with the public companies of the developed countries more attractive to the enterprises of the European CMEA countries.

Difficulties might arise on the side of the European CMEA countries, too. The companies of the CMEA countries are usually geared to the internal economic life of those countries, operating under a set of premises which very often do not regard risk as an essential element in business calculations. The predominant type of economic organization in the CMEA countries is introverted, with no great ability or willingness for direct ventures on foreign markets; whereas the operation of the specialized foreign trade organizations is largely confined to straight traditional commercial deals

of buying and selling. There are therefore comparatively few economic organizations in the CMEA countries which would be capable of purposeful and efficient action over and above the sphere of straight commercial deals, on the theatre of the non-socialist part of the world economy.<sup>16</sup>

In view of the above, it appears necessary to set up mechanisms and organizations, including authorization to extend credit and guarantees which would permit the individual CMEA countries' enterprises to undertake in the mineral sector of the developing countries business ventures requiring greater quantities of finance and would involve a greater risk than is usual within the socialist economies.

In the area of cooperation in the minerals and fuels sector between the developing and the European CMEA countries, the obstacle is sometimes encountered that the influential transnational monopolies based in the developed market-economy countries - through a variety of contractual arrangements - keep under their control the richest and cheapest-to-exploit mineral deposits of many a developing country. The creation of a more effective de facto control by the developing countries, with due attention to economic rationale, over their natural resources would create a more solid foundation on which to base the cooperation of the two groups of countries in the fuels and minerals sector. Certainly, the CMEA country companies should take into account the fact that in the mineral mining of developing countries there is a sharp competition by the Western transnational mining corporations commanding

firm positions and substantial experiences in the key branches of the extractive industry in most developing countries.

One of the grave obstacles to intensifying resource cooperation between the developing and the European CMEA countries is the predominantly bilateral nature of relations. There is the contradiction that, whereas the European CMEA countries between them have succeeded in setting up a sophisticated integration, their approach to cooperation with third countries has remained basically unintegrated economically, even though mining would be a sector pre-eminently suited for multilateral arrangements. International mining ventures usually have a large number of participants, as a result of the desire to spread the financing burdens, which are quite heavy as a rule, as well as the economic and political risks.

As pointed out above, experience has shown that numerous joint mining projects of European CMEA countries with developing countries had failed to materialize because, in the majority of cases, the CMEA partner acting in isolation felt the financing burden and the risk to be excessive. A more coordinated approach by the CMEA countries could doubtless infuse more momentum into mining cooperation between the two groups of countries. It would, on the one hand, increase the propensity of the individual countries to participate in such ventures by spreading the burdens of risk and finance. On the other hand, more efficient, many-sided and larger-volume technical and economic assistance made possible by a joining of forces among several CMEA countries would enhance also the interestedness of the developing-country partners.

The participation under the sign of cooperation of more than one interested CMEA country in the extraction and processing of the mineral resources of a developing country and in augmenting its mineral export capabilities could be realized in a variety of forms: the performance of joint geological prospecting; the extension of project-tied credits against proportionate fuels and/or minerals supplies; joint construction of mining and processing facilities; the branching out of some of the existing international economic organisations and operative entities into mining and minerals processing in the developing countries; the creation of new international socialist joint companies empowered to embark upon joint ventures with the state-owned mining companies of the developing countries; the creation of a centre of information and coordination to provide insights into the aims, projects and opportunities of cooperation.

It is a task of the CMEA countries to set up the right conditions of interestedness, organization and financing indispensable for the wide-ranging application of this type of multilateral cooperation. An appropriate set of conditions should be created in which - in contrast to the past - no multilateral venture would be doomed to failure on account of the low level of sophistication of the interests, organisations and credit facilities involved. In this connection, the important problem must be tackled that, in the case of cooperative ventures, the individual CMEA member countries should exhibit a greater willingness and readiness to undertake a prime contracting role. The International Investment Bank of the CMEA would have to play a role incomparably greater and more efficacious than its present one in financing and



guaranteeing mining ventures entered on by consortia of several CMEA countries in a developing country. The sums - rather limited at present - available in a Special Fund of the Investment Bank created for the purpose of financing cooperation with the developing countries should be expanded in proportion with the growing capital requirements of cooperation, and used more freely for granting credits to the capital-intensive mining ventures. In this way, a situation could gradually be created where, above a certain limit of finance, the extension of credits and guarantees to joint mining ventures by several CMEA countries in a developing country would automatically become the task of the Investment Bank.

In identifying the long-term prospects of mining cooperation between the two country groups, it is indicated to respect to the maximum possible extent the vigorous striving of the developing countries to export increasing quantities of the minerals produced in their territory in processed form. In a substantial number of developing countries, industrialization can unfold most successfully and in the most natural way by relying on a domestic raw materials base. Therefore, the developing countries will increasingly give priority to the export of semi-finished products as against the direct export of primary commodities, therefore it may appear, indispensable, from the point of view of ensuring raw-material supplies, to join in the establishment of appropriate manufacturing activities in a suitable form of co-operation. Intentions to cooperate in the mining sector alone will in the future, even more than at present, encounter the reluctance of the developing countries. Avoiding the conflicts of

interest that might emerge in this context is in the common interest of both the developing and the CMEA countries.

Even though a substantial share of the economic and technical assistance by the European CMEA countries goes into the development of fuels and minerals processing industries in the developing countries, the share of imports of semi-finished goods from the developing countries into the European CMEA countries is marginal. In 1980 only 1.2 per cent in value terms of the total iron and steel imports of the European CMEA countries originated from the Third World (in 1970 it was also 1.2 per cent); in contrast, the share of the developed market-economy countries was rather high at 55.6 per cent (in 1970: 30.7 per cent). This wide gap is but partly explained by the differences in quality and product range between these two sources of imports. The share of products originating from the developing countries was relatively low (10.6 per cent) also in the European CMEA countries' overall imports of non-ferrous metals, although the picture is distorted somewhat there by the role of intermediaries in this case, however, the share of the Third World increased from 4.4 per cent in 1970. The developing countries' share is extremely low also in the imports of chemicals (2.5 per cent in 1970 and 1.4 per cent in 1980) as the developed market economies dominate the import picture (45.2 per cent in 1970 and 63.6 per cent in 1980).<sup>17</sup>

It is desirable and possible to modify in future these proportions in favour of the developing countries. This requires the setting up and the massive development of a complex vertically-oriented system of cooperation which would cont-

tribute to the satisfaction of the European CMEA countries' growing needs in materials and semis in such a way as to promote at the same time also the complex development of minerals processing industries in the developing countries involved, thereby enhancing the motivation of those countries in resource cooperation. Complex programmes of cooperation covering the entire chain from mining to processing and manufacturing can be built on a safe marketing base if part of the output is earmarked for satisfying the demand of the CMEA countries. The success and efficiency of the complex vertically-oriented programmes depends essentially on the multilateral participation of the CMEA countries and on their cooperation in the realization of these programmes. Under such programmes, it would be possible to organize trilateral cooperation schemes based on participation by one or more economic organizations of the developing, developed market-economy and CMEA countries. In such a way, the extremely low percentage /less than 3 per cent/ of mining ventures among the current number of trilateral cooperation projects could be increased.<sup>18</sup>

Experience has shown that the scope of optimization inherent in the most reasonable combination of the inputs of the cooperating partners (labour, technology, capital, management, marketing, R and D, etc.) can be exploited the most efficiently in complex and large-scale projects.

A more direct cooperation in the fuels and minerals sector between the developing and the European CMEA countries would be served also by the confinement or elimination of intermediaries, who in many cases play an important role even

today Even though in recent years indirect trade flows through intermediaries have exhibited a declining trend, imports through middlemen may make up as much as 15 to 20 per cent of total imports (e.g., in the Latin American imports of Czechoslovakia and Hungary).<sup>19</sup> Trade by intermediaries is especially extensive in non-ferrous metals (tin, copper, etc.). The interests of the developing countries coincide with those of the CMEA countries in the strengthening of direct ties, in the exclusion of intermediaries. At present, intermediaries may remain in business because, in some cases, they offer more favourable terms of price and delivery than the original exporters..

#### 3.4. The transportation issue

In the context of expanding cooperation in the fuels and minerals sector between the developing and the European CMEA countries, and of the enhanced geographic diversification of the CMEA member countries' procurement of fuels and minerals, the issue of sea and land freight handling capacities and of the portuary capabilities of both the developing and the European CMEA partners arises as a problem of increasing importance.<sup>20</sup> A vigorous collective effort by the European CMEA countries will be needed to avoid a situation where transportation infrastructure may become a limiting factor of cooperation with the developing countries. As shown by the experience gained in numerous concrete ventures, the development of transportation infrastructure promoting both local processing and exports must be an organic constituent of every programme of cooperation in the mining sphere. The

ports of the European CMEA countries which receive the raw materials from the developing countries as bulk goods are currently operating at or beyond the extreme limits of their capabilities in the majority of cases, and their technological sophistication also leaves a great deal to be desired. (At present, there are within the European CMEA few ports equipped to handle the giant freight vessels which would render it possible to purchase bulk goods at reasonable cost even from the most remote sources.) The same holds with certain qualifications also for the land freight capacities whose task is to haul the raw materials received at the ports to their places of consumption inland. The envisaged substantial expansion of imports of fuels and raw materials from outside the European CMEA will render inevitable a dynamic expansion and modernization of the European CMEA countries' merchant marines, ports and land transportation facilities.<sup>21</sup> This task makes it indispensable to unite the efforts of the interested European CMEA countries, especially on the financing side. It is to be recommended to involve in the financment of transport infrastructure development those developing countries which have disponsible capital for investment abroad and envisage the expansion of their exports of petroleum and minerals into the CMEA countries. An example of multilateral cooperation in the field of transportation is the Atria Pipeline, jointly constructed by Yugoslavia, Hungary and Czechoslovakia, to whose financing certain petroleum-producing countries of the Middle East also contributed by granting credits.<sup>22</sup>

#### 4. Summary and Conclusions

The minerals and fuels situation in the European CMEA

countries, taken overall, is characterized by a high degree of self-sufficiency; in fact, the CMEA group as a whole is a net exporter of many important fuels and minerals (crude petroleum, natural gas, coal, copper, zinc, nickel, potash, etc.). This circumstance endows the CMEA community with a high economic security, the advantages of which become manifest especially in those periods when the commodity markets of the non-socialist world are characterized by imbalances and violent fluctuations and by a tendency towards politicization. In the 1970s, such tendencies unfolded with a vigour never experienced before on most of the commodities markets, but especially on the market of petroleum. Over the last three decades the CMEA integration has reached the greatest intensity in the minerals and fuels sector of the member countries.

During the seventies, fuels and minerals imports from the Third World have become of increasing importance to the European CMEA nevertheless, as indicated by the fact that in 1980 more than one-fifth in value term of the total minerals and fuels imports of the European CMEA originated in the developing countries. The developing countries' share is especially significant in the case of metalliferous ores and fuels.

Over the seventies, the institutional arrangements for organizing East-South mineral development cooperation have been characterized by increasing diversity, complexity and sophistication.

Technical assistance by the socialist countries to the development of mining in the Third World countries constitutes an important element of cooperation. The European

CMEA countries, which have a substantial experience and a sophisticated scientific-technical base in mining, provide in many a developing country an extensive technical assistance in the geological prospecting for natural resources and in the creation or development of the national mining industry.

In mineral development cooperation compensation agreement has been increasingly used as an arrangement to compensate the European CMEA country for its direct financial and technical contribution to the mineral development in a developing country by resource deliveries. These long-term agreements as a rule, include the provision of credits by the CMEA country companies. Prominent among the compensation deals is Soviet-Moroccan phosphate agreement and the Soviet-Guinean bauxite scheme.

Over the last decade the CMEA countries have tended to increasingly rely on such more sophisticated forms of mineral development cooperation as the joint equity ventures. At the end of 1978 out of the 185 CMEA country joint ventures operating in the Third World, 51 were engaged in resource development 64 per cent of the total capital invested by the CMEA countries in joint companies in the developing countries and 92 per cent of the fixed assets of those companies were in resource development including mining and minerals processing. This reveals the CMEA investments in the developing countries are rather minerals-oriented. In the developing countries, wholly-owned CMEA country companies are very rare; most resource-related investments are in jointly-owned companies in which the CMEA stake represents an equal or minority holding. The CMEA enterprises prefer to establish joint ventures with

public companies in the developing countries.

In minerals cooperation between the European CMEA countries and the developing countries long-term supply agreements acquire a growing importance. These agreements often involves granting commercial credits or providing a variety of technical services on credit by the CMEA countries to the developing countries.

Multilateral cooperation in the mineral development is the least developed form in the relations of the two groups of countries. Whereas the CMEA member countries among them are organizing their cooperation in the fuels and minerals sector under the signs of ever deeper integration and growing multilaterality, economic and technical assistance to the development of mining in the developing countries goes on in an essentially uncoordinated fashion, although the large amounts of capital required as a rule by mining projects, the need to solve complicated technical problems and to spread the economic risk would make it both reasonable and desirable to unite the efforts of the European CMEA countries with a view to a more multilateral approach.

Policies and prospects of socialist countries in East-South mineral development cooperation are significantly affected by the evolution of intra-CMEA resource situation and cooperation. Our forecasts suggest further difficulties in raw material and energy imports from CMEA sources until 2000. The general CMEA-level shortage of these commodities



will further increase, and they will become even "harder" commodities. The quantitative limits to imports from CMEA sources will make themselves felt more vigorously than before, the cost advantages of these imports relative to non-socialist imports and to the development of domestic mining will, in general, substantially diminish, and in certain cases even discontinue. The increasing difficulties of CMEA imports are basically connected with the specific development problems of Soviet mineral mining and with the inadequacies of CMEA resource co-operation.

The faster the increase in the supply costs of raw materials and energy imported from CMEA sources, ceteris paribus, the higher the relative profitability of imports from alternative sources. Our analysis concludes that the rise in the share of non-socialist countries (mainly developing countries) in meeting of East European resource import needs would become inevitable in the period until 2000. This applies to petroleum, natural gas, iron ore, phosphate rock and coal. The report provides a forecast for CMEA imports of raw materials and energy from developing countries in 1990 based on two scenarios: (1) assuming that the efforts for demand management will not produce the desired results; (2) assuming that the efforts to moderate the increase in demand will prove successful, the growth rate of raw materials and energy consumption will slow down considerably and there will be a marked improvement in specific input use. In both cases, CMEA imports from the Third World will be significantly higher than at present.

The relative extroversion that will become necessary in the fuels and minerals procurement of the CMEA countries will render indispensable the extension of cooperation in raw materials and the modernization of its mechanisms. It will be necessary to rely, to a greater extent than heretofore, on such closer and more direct and sophisticated forms of cooperation in production as compensation agreements, joint companies, international consortia, joint socialist international enterprises and service agreements. Cooperation in mining demands multilateral forms more than any other sphere. It will be necessary to set up in the European CMEA countries the conditions of entrepreneurial motivation, organization and crediting that are the prerequisites of wide-ranging multilateral cooperation. In developing mineral cooperation between the two groups of countries, the striving of the developing countries to export increasing percentages of the minerals and fuels extracted on their territory in processed form must be satisfied to the greatest possible extent. This requires the setting up of a complex vertically integrated system of cooperation which can contribute to the satisfaction of the European CMEA countries' demand for resources in such a way as to promote at the same time also the raw materials processing in the developing countries. The socialist countries should seriously consider some rational reorientation of their semi-manufactured goods imports from the developed market economies (which at present play a dominant role in the overall CMEA imports of these products) towards the developing countries. It also should be taken account that the prospective expansion of cooperation in raw materials between the two groups of

countries presupposes a substantial expansion and modernization of transportation infrastructure in both the developing and the European CMEA countries.

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8. Metal Bulletin, February 2, 1982.
9. For more details, see Carl H. McMillan, "Growth of External Investments by the Comecon Countries", The World Economy, No. 3, 1979, pp. 366-367. McMillan rightly points out that the "Use of the term 'direct foreign investment' varies and sometimes includes joint equity ventures. Normally the concept is reserved for equity investments which more unambiguously entail foreign control." (p. 384)
10. A Soviet source refers to some 200 joint companies established by the European socialist countries (including Yugoslavia) in the Third World by the late 1970s. See O.T. Bogomolov, Strany-sotsializma v mezhdunarodnom razdelenii truda, Moscow, Nauka, 1980, pp. 278-279.
11. Carl H. McMillan, op. cit., p. 370.
12. For more details, see István Dobozi, "Problems of Raw Material Supply in Eastern Europe", The World Economy, January 1978, pp. 205-222.
13. S. Pomazanov and A. Yakushin, "Razvitie integratsionnykh protsessov v energetike stran SEV", Voprosy Ekonomiki, Moscow, No. 6, 1976, pp. 75-76.
14. See István Dobozi, Projection of World Raw Materials Markets until 2000, Institute of World Economy, Studies on Developing Countries No. 110, Budapest, 1982 (forthcoming).

15. As a recent Soviet assesment has put it, "the improvement of the existing forms of cooperation (between the CMEA countries and the developing countries), and the introduction of novel forms of relations can very well lead to a situation where, even under the changed price patterns of the world market, imports of fuels and minerals from the developing countries may prove not less efficient than imports from the Soviet Union." "Sotrudnichestvo razvivayushchimisya stranami v resenii toplivno-sirevoy problemy stran SEV", in A.I. Zubkov (ed.), Toplivno-sirevaya problema v usloviyakh sotsialisticheskoy ekonomicheskoy integratsii, Moscow, Nauka, 1979, p. 126.
16. Cf. Egon Kemenes, "Nyersanyag-kitermelés a fejlődő országokban és a KGST-országok" (Mining in the developing countries and the countries of the CMEA), Gazdaság, Budapest, No. 3, 1972, pp. 141-142.
17. Monthly Bulletin of Statistics, May 1982, United Nations, New York, 1982.
18. According to a survey by the UNCTAD secretariat, of the 100 projects realized in the developing countries between 1965 and 1974 under tripartite agreements, 83 were in manufacturing (including metallurgy), more than 10 in electricity generation and 3 or so in mining and communications taken together. Cf. Tripartite Industrial Co-operation, UNCTAD/SEM. 1/2, 25 November 1975.
19. Cf. Trade and economic relations between Latin American countries and countries members of the Council for Mutual Economic Assistance, Study by the UNCTAD Secretariat, TD/243/Supp. 2, 10 April 1979, Paragraph 46.

20. On the transport capacity problem in the East-South resource cooperation context for more details, see Economic Relations between the European CMEA Countries and the Developing Countries and their Role in Development, Institute for World Economy, Budapest, 1980, pp. 9-100.
21. Strivings in that direction are indicated, for example, by the fact that, after the Soviet Union, the other non-land-locked European CMEA countries /the GDR, Bulgaria, Poland/ have also embarked upon programmes of tanker construction. Bulgaria which, at present, possesses two tankers, is engaged in cooperation in tanker construction with the GDR, Poland, France and Japan.
22. An interesting deal of cooperation in haulage has recently been concluded by Bulgaria and Iran. The two countries have created a joint transportation company, 52 per cent of the subscribed capital of which has been provided by the Bulgarian and 48 per cent by the Iranian party. As an interesting feature, 30 per cent of the subscribed capital was extended by Iran in the form of petroleum deliveries, and only the remaining 18 per cent in cash.

András Inotai:

Economic Relations between the CMEA and the EC at the Beginning  
of the 1980s  
/Facts, Trends, Prospects/

The problem of relations between the two European integrations can be approached from several aspects. Literature concerned distinguishes legal, as well as political or economic approaches. The present study intends to analyse the economic aspect of relations, being, however, also aware of the fact that the institutionalization of relations is not independent from legal and political considerations at all. Nevertheless, it starts from the point that, in order to having a clear view of different interests, basically economic interests are to be examined, so much the more because significant changes took place in this field during the 1970s which can be enriched by further new elements in the 1980s.

The Integrations and the Changes in the World Economic Environment

The fundamental changes taking place in the world economy during the early-1970s /those in price relations, the intensification of structural problems, the modification of growth conditions, problems in the international monetary system, the restructuring of world economic bargaining power, a new phase in East-West relations/ influenced not only the behaviour of national economies but also that of regional integrations established in earlier years. These impacts occurred exactly in the period when the integrations themselves came, quite apart from world economic changes, as a matter of fact, at the crossroads. /13/ In order to maintaining or increasing the integrational advantages gained earlier, in the 1950s and 1960s, the further internal development of the integrations, the expansion of vertical integration was required.

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As far as Western Europe is concerned, this was the time when, following the Customs Union and the Common Agricultural Policy, the first plan to form a monetary and economic union was elaborated, the Community-level industrial policy took shape /a rather uncertain one, as a matter of fact/, and, finally, partly as a result of efforts counterproductive to further verticalization, the Community was enlarged from six to nine members.

The CMEA worked out, also in this time, the so-called Comprehensive Programme, in order to further develop trade relations, growing dynamically during the previous two decades, and those in the field of manufacturing specialization, started more recently. The Programme contained the expected main course of development of socialist integration in the 1970s and the 1980s.

Thus, it is not easy at all to separate the problems, tensions and possible solutions, deriving from the inherent development of the integrations, from impacts resulting from the changing world economic environment and from the responses to these changes. The analysis is even more complicated because some of the regional integrations are, owing to their relative importance in the world economy, active participants themselves, and not only passive "victims", of these world economic changes. This is especially true in the case of the European Community having a relatively high share in world trade, the enlargement, and later the accomplishment of the contract system of which was one of the more important and for external or excluded countries /for example, for all CMEA-countries except Romania/ mostly unfavourable elements of the 1970s.

We are going to discuss the modification of the world economic environment from three aspects: 1. how it generally influenced integrational ideas; 2. to what extent it modified the



the behaviour, the integrational ideas of the EC; and 3. what impact it had on the CMEA.

1./ Earlier integrational initiatives were slowed down, partly as a result of the internal development of the integrations, partly due to the change in the world economic environment. The dynamic element of further development became less and less vertical integration and more and more the horizontal enlargement, the extension of the geographical borders. Moreover, the geographical enlargement of the economic integrations was motivated mostly not by economic but, on the contrary, political reasons. /14/ Another important change took place in the division of roles between the economic policy of members of the Community and that pursued at the level of the Community itself. Namely, while the integration had tried earlier to reinforce the international economic importance of the given region and thus that of the members of the Community, in certain fields at least, and, as a result of this, pursued an offensive, active economic policy, the world economic disorders and "storms" of the 1970s more and more widened the gap between the priorities of national and integrational economic policies. The criterion of security was upvalued in the economic policy of the Community, manifesting itself in a defensive /industrial/ policy trying to defend earlier positions, artificially maintaining many times out-dated structures. On the other hand, in the case of national economies, experiencing the deterioration of terms of trade in the first place, suffering from problems of both balance of trade and payments, the increase of exports, looking outward /opening/, the establishment of economic relations beyond the scope of the regional integration became, except a transitory and relatively short period, an imperative necessity. This process was

completed by the fact that the adequate choice of partners became an important aspect of progress for the countries participating in one or the other integration, all of which had different levels of development and structure. In the present phase of international economic co-operation the exclusive or decisive elements of intensifying this co-operation are not necessarily relations between economies of similar structures, suffering from the same problems but, on the other hand, division of labour between economies structurally completing each other is gaining more ground.

The division of roles between integrational and national economic policies contains, even in itself, certain tensions between defensive integrational aims, trying to achieve more regional security, and the export-oriented ones of the national economies. Another source of tension is that the changes in the world economy did not have the same impact on all members of the given integration. In reality, these changes crossed the system of integrational interests, established earlier, in a sort of diagonal way, and created a significant polarization of interests within the integration /whether one takes, as an example, the group of countries profiting from the changes of price relations and suffering losses there, or the structurally advanced or declining economies/.

- 2./ The EC was unable to initiate a process reinforcing the verticalization of the integration. The differences in the levels of development became greater and, regardless of the fact that the frameworks of the monetary co-operation were finally laid down, presumably only temporarily, the shortcomings of the harmonization of national economic po-

licies, the rates of growth and inflation still differing greatly from each other, increase the likelihood of new and new tensions. An explicitly national and, on the other hand, through the foundation of the International Energy Agency, a global response, one reaching beyond the scope of the EC, was given to the greatest challenge of the 1970s, that is, to the aggravation of energy problems. The working mechanism of the Common Agricultural Policy, worked out earlier, is more and more jeopardized, partly by the aggravation of structural problems spreading from agriculture to manufacturing industry and to the labour market, and partly by the narrowing sources of financing everywhere /we refer primarily to the cutbacks of the West German state budget, supplying the biggest individual /national/ contribution to EC budgets, the renegotiation of the British contribution and the increase of the importance of regional support, becoming necessary as a result of the enlargement of the Community/. In reality, new economic policy at Community levels was formulated only in the case of certain industries, in those seriously endangered by international competition. Contrary to industrial development, announced in the previous period, never carried out, however, at Community levels, and concentrating on high technology industries, the EC has explicitly become the main stronghold of advocating defensive industrial policy, thus causing negative effects already appreciable in international trade and economic relations.

In order to maintain the integration process, due to the awareness of difficulties in the way of carrying on economic integration, a partly extra-integrational, partly political /instead of an economic/ initiative was required. As for the first initiative, it is well illustrated by the

extension of the system of agreements signed by the EC, by the entry of Greece, then, in the following years, that of Spain and Portugal, the industrial free-trading zone established with the EFTA-countries, the preferential relations worked out with countries in the Mediterranean, the Lomé Convention, the agreement signed with the ASEAN. As a result of all these, trade between the EC and these economies, integrated into its system of agreements and conventions, represents, including also trade within the EC, almost the half of world trade. /25/ Co-ordination in the field of foreign policy between the members has intensified in the last years; occasionally even common actions, initiatives took place in some basic problems of world politics /Middle East, South Africa/, and the earlier proposal to institutionally reinforce the bases of a common foreign policy was repeatedly mentioned.

- 3./ The CMEA-countries had to face the changing environment of the world economy at a time when their domestic economic development reached the limits of a certain period. The previously abundant internal /regional/ sources of growth /cheap and abundant raw materials, labour force, capital/ became exhausted or are just about to exhaust, and this requires to rely on new sources of growth. One of these, the intensification of international economic relations, has already been implemented from the late-1960s on, not quite independently from the positive changes of the political atmosphere existing at that time between East and West. The opening process in the foreign economic field was, however, embedded in the case of most countries, especially in those lacking raw materials, in a basically unfavourable world economic environment: losses in terms of trade as a result of changing price relations, strict-

er conditions of trade even within the CMEA, the price hike and occasionally physical limits of availability of • from the point of view of growth and exports essential raw materials and energy sources, the more intensive competition of developing countries on the most important western market for all of them, Western Europe /27/, and, not in the least, EC regulations artificially and significantly hampering their competitive exports, can be mentioned here. Since the socialist countries were unable to adjust with the adequate flexibility to these rapidly changing conditions on external markets, structural changes were started only very slowly and contradictorily, the demand for raw materials and basic products of the economies began to diminish only belatedly, the earlier growth model was reappraised also only partially and belatedly, trade deficit increased and the rate of their indebtedness got higher. Thus, finally, considerable import restrictions became necessary which led to the cutback of investments, to the slowdown of the growth rate and reinforced the recognition in all these countries that a lasting balanced position can be reached only through a considerable increase in exports and, as a precondition of this, through structural change. This means that unlike at the beginning of the 1970s when imports for development intensified the relations of the CMEA-countries with the outside world economy in the import field, now an export drive is necessary to connect them into the international division of labour. /4/ The development strategy already implemented or to be still introduced to serve this aim was laid down /or was not, in some cases/ with different intensity and time lag, for various reasons, in the individual countries.

A Short Appraisal of the Relations between the CMEA and the EC

As we could see, the changes in the world economic environment and the inherent problems of development of the integrations considerably modified, in the 1970s, both previous general ideas concerning the integration process and the behaviour of the two European integrations. It is, therefore, rather conspicuous that no practical change took place in one field: the "non-agreement" state, a sort of "diplomatic football game" between the two integrations still exists. /28/ Neither the improvement of the political climate of the early 1970s, nor the expanding East-West economic relations could change this situation /even taking into consideration that the idea of negotiating between the two integrations was raised at that time/, and nor did problems of the world economy modify it. On the contrary, due to the enlargement of the international system of agreements of the EC, the unsettled state of relations between the CMEA and the EC, the ex-lex situation between two parts of Europe having progressed during the history of many centuries of the European continent in close economic, political, cultural interrelations constitutes, in practice, a real "deserted island".

The two integrations had for a long time ignored each other's existence. In spite of this, certain European CMEA-countries /Bulgaria, Hungary, Poland and Romania/ signed a so-called technical agreement with the Commission in Brussels in 1965 because the protectionist agricultural regulating system of the then Common Market affected unfavourably their traditional agricultural exports to West European markets.

A significant change occurred in trade relations when the foreign trade rights of the members of the EC were delegated to Brussels. The trade agreements between the EC-members and the individual CMEA-countries expired in 1974 and since that

because thus they could secure, despite relegating the national rights to pursue a trade policy to Brussels, a certain room of manoeuvres of their own, national trading interests in influencing East-West trade developing dynamically at that time.

In order to institutionalizing the relations between the two European integrations, a proposal for an agreement was set forth in February 1976 by the Secretariat of the CMEA<sup>x</sup>, based on the Helsinki Agreement of 1975. This proposal contained the promotion of trade relations, the removal of obstacles impeding especially agricultural trade, the mutual granting of the most favoured nation status, better credit conditions, trade preferences of the EC for the CMEA-countries interested, protective measures in case of "market disruptions", setting up a joint committee on governmental level then, further, close co-operation in the fields of standardization, protection of the environment and exchange of information. The response of the EC, in November 1976, to the "maximal proposal" of the CMEA could be qualified as a "minimal offer". The latter intended to limit the relations between the two integration to the not so important and more general items like the exchange of information, standardization and protection of the environment, while in trade matters only the negotiations between the EC and the separate CMEA-countries were regarded as acceptable. These general positions, being basically different from each other, were not altered by the frequent meetings of later years, either, even if there were small steps taken occasionally towards rapprochement.

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x - Negotiations between the two integrations started already in 1973-74. For the chronology of relations so far, see /3/, /5/, /12/ and /15/.

• The obvious question arises: why doesn't Brussels wish to enter into relations based on an agreement with the CMEA? Earlier, and on both sides, there were political and legal obstacles in the way of concluding an agreement. Neither of the integrations was inclined to recognize each other. There was, however, certain rapprochement in this field at the beginning of the 1970s /we refer to Mr. Brezhnev's speech at the congress of Soviet Trades Unions in 1972 about "realities evolved in Western Europe"/, but essentially the EC again and again questioned the existence of the CMEA as an international legal institution. Beyond doubt, it acted like this without denying the fact of the existence of the socialist integration but, in a more subtle way, regarding it as inadequate for entering into trade negotiations with the Community, saying that the CMEA did not have the necessary authorization to negotiate. This is, however, refuted by both the practice of the CMEA and the attitude of the EC in other matters. As for the first, the CMEA as an integrational body concluded agreements with a number of countries /Finland, Iraq, Mexico, Yugoslavia/ and, further, a number of articles of the founding document of the CMEA lay down the authority of the socialist integration to legislate and to conclude international agreements. /7/ As for the second aspect, the Council of Ministers of the EC considered as necessary, at the beginning of 1980, to reinforce the dialogue with the Arab League and also it signed a co-operation agreement with the ASEAN. It can hardly be disputed that the legal status, the institutional power of the CMEA is much stronger than that of either the Arab League or the ASEAN.

The other often mentioned argument of the EC against entering into official relations with the CMEA is that such an agreement would, so to say, increase the influence of the Soviet Union on the foreign trade activities of the small CMEA-countries, unlike bilateral agreements to be concluded sepa-



rately with the individual CMEA-countries. Brussels argues that the postponement of signing an agreement between the integrations serves, in reality, the protection of the "sovereignty" of small CMEA-countries. This is, however, contradictory not only to the opinion of socialist economists but a number of Western analysts also call the attention to that this attitude of the EC is not sufficiently grounded. The truth is, namely, that the lack of contractual relations between the two integrations influences unfavourably not the Soviet Union in the first place but those small CMEA-countries which, on the other hand, are heavily dependent on international economic co-operation and, on the other, the export structure of which is also unfavourable because products afflicted with quotas and other restrictions on EC markets represent a relatively high proportion in their exports. /2/, /27/ Besides this, it is not sure at all that the individual CMEA-countries would really think that their special interests can be defended and, what is even more important, better realized individually, when negotiating with an economic community much stronger than themselves, than negotiating together, as one international community.

Finally, the third reason, more devoid from legally and emotionally false arguments, is given by the EC in the form that an agreement concluded with the CMEA cannot be based upon reciprocity because the EC has no real economic interests in signing such an agreement, and in case it had, still there would be no possibility to enforce them because of the character of foreign trade of the CMEA-countries /bilateralism, system of contingents, lack of tariffs, central planning of imports/. The free-trading agreement between the CMEA and Finland proves, however, that the separate socialist countries, although the organizational structure of their foreign trade is different, can secure reciprocity through adequate concessions. Moreover, Hungary, Bulgaria and Poland do set tariffs

on their western imports, so they are indeed capable of offering tariff preferences. Other CMEA-countries /Czechoslovakia, GDR/ can support imports coming from a given country with special instruments /market promotion, supply of information, financing possibilities, etc./. In reality, this reasoning of the EC aims at gaining non-economic advantages from the CMEA in exchange of the economic /trading/ ones offered by it. The attitude of Brussels is not new or unique at all: the economic "concessions" of the Common Market in the hope of gaining political advantages instead, constituted one of the typical elements of the foreign economic policy pursued by the EC in the second half of the 1970s. They are in close relationship with the trend mentioned already in the introduction that the economic integration tries more and more to discover, due to the obvious limits of the inherent development and to the conflict of economic interests of the member-countries, in foreign policy forces to maintain the momentum of the integrational process. It is enough, in connection with this, to refer to the agreement signed with the ASEAN which was hardly dictated by the priority of economic interests of the EC but rather by the hope of thus contributing to the "political stability" of the Far Eastern Region.

The situation is even more clear-cut, as far as the enlargement of the Community is concerned: even official sources of the EC admit that the entry of Greece and, later, of Spain and Portugal, may cause a number of serious problems which they wish to counterbalance with political profits being hard to quantify but very much hoped for<sup>x</sup>. Finally, one must not for-

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x - Even in the first statements in connection with the entry of these countries the political contribution of the EC to the stabilization of bourgeois democracies established in the mid-1970s and still rather "fragile" was mentioned in the first place.

get that the EC was, for long years, unwilling to enter into real negotiations with Yugoslavia to sign a new agreement, either. Then, the illness of President Tito, the increasing anxiety of West European circles for the future of the Yugoslav political course at once accelerated the negotiations and led to end them successfully, satisfying most Yugoslav demands. /1/ A Western opinion deserves attention here: Lebahn noted, in connection with the sudden finalization of the agreement between Yugoslavia and the EC, that "it demonstrates only that the decisive factor is not the existence or non-existence of differences between the systems but to what extent these agreements seem to be politically desirable". /22/

Well, but is there really no economic interest for the EC to have closer trade relations, wider division of labour than today, with the CMEA? This question must be examined in several parts. First, we will discuss the facts, structure, main geographical points of trade relations between the two integrations, then we focus our attention on the effects of the market-regulating, protectionist measures of the EC. Finally, we will try to point at some, at least possible, aspects, putting them into the foreseeable international economic /and partly political/ environment of the 1980s by which we at least hope to significantly refine but probably essentially modify the above-mentioned, rather simplified appraisal.

## The Characteristics of Trade Relations between the Two Integrations

Our statistical survey is limited to the second half of the 1970s, that is, to the period when new tendencies appeared in East-West trade /first, the increasing deficit of CMEA-countries then, from 1977-79 onwards, based on the effort of establishing more balanced relations, the reinforcement of socialist exports and, above all, the severe restriction of imports/. /18/

Figures of Table 1. demonstrate that trade between the two integrations grew dynamically between 1975 and 1980 since, for instance, the exports of the EC to the CMEA increased by 55 per cent, while its imports grew by not less than 160 per cent. Bilateral trade in 1980 was near 50 billion US dollars, exactly the double of the level of 1975. As for 1981, the effects of the changes in the economic policies on both sides were clearly visible: the imports of the CMEA significantly, its exports slightly decreased, meaning, owing to figures given in current prices, a considerable fall in the volume of trade. Another new aspect of trade has been the active balance of trade of the CMEA with the EC since 1979. This surplus has further increased since that time, reaching 5,5 billion US dollars in 1981. The importance of the CMEA in the total imports of the EC has been raised, due partly to the export efforts of the socialist countries but, above all, to the big Soviet oil and gas sales, while the opposite tendency has prevailed in the exports of the Common Market /where the share of the CMEA considerably diminished/.

Some general comments are necessary to these figures. First of all, even the trend of the past five years is not enough to forget that earlier, more exactly before the establishment of the system of agreements of the EC, trade between the two groups of countries was more important than today,

for both sides<sup>x</sup>. Secondly, the EC is doubtlessly more important, as a partner, for the CMEAS than the latter is for the European Community /reflecting the well-known asymmetry of East-West trade relations/. It would, however, be wrong to draw the conclusion from this that trade with the CMEA is not important for the EC because, beyond the political reasons, the importance of the CMEAS-market is almost as great, even today, for the EC-countries relying intensively on exports and, in general, on the participation in the international division of labour, as that of the USA.

Besides this, the socialist market is of especially great importance from the point of view of the future of certain industries. About one-fifth of metallurgical equipment, steel tubes and steel plates goes to CMEA-markets. Finally, it deserves also attention that the CMEA-relation meant for the EC-countries, in the major part of the 1970s, and if one excludes the Soviet Union, means practically even today, a source of trade surplus and in some cases it contributed significantly to the success of the efforts of West European countries suffering from balance of payments problems, to restore their external balance. The aggregate surplus of the EC with the small CMEA-countries reached, during the 1970s, about 10 billion US dollars. /3/

Thirdly, and this is in our opinion one of the most significant changes of the last 5-6 years, dynamics of bilateral trade received their "energy" more and more from the Soviet Union's sales, more exactly from the increase of oil and gas x. - For example the share of the EC in the total OECD-exports of the CMEA, amounting to 64 per cent in 1980, meant only that it reached again the level of 1965. /8/

exports, above all, due to the increase of their prices. This change not only the balance of trade between the two integrations but caused significant modifications in the relative positions of the individual CMEA-countries in the field of trade with the EC.

Table 2. reflects these changes. The share of the Soviet market in the exports of the Common Market to the CMEA increased between 1975 and 1981 by more than 3 percentage points, to over 45 per cent. It deserves attention, besides this, that an almost similar gain is characteristic of the GDR and Hungary, too. The growth of the relative importance of all the three countries can practically be explained by the considerable contraction of the Polish import market.

A more significant change took place in the CMEA-exports to the EC. As a result of the oil price changes, the share of the Soviet Union increased, within six years, from 43 to 60 per cent, causing the decline of the share of other CMEA-countries /except Bulgaria/. The share of Poland fell to exactly the half, losing 10 percentage points but, at the same time, 3 percentage points were lost by Czechoslovakia, more than 2 by Romania and exactly 2 by Hungary, the latter despite its pursuing a relatively consequent export policy. It deserves special attention that from 1980 to 1981 not only the value of exports of Poland but also that of Czechoslovakia Hungary and Romania considerably decreased.

Somewhat minor and in the table not aggregated changes took place among the EC-countries, too. Contrary to certain French worries that the development or possible institutionalization of the relations between the two integrations would mostly mean that West German interests could be realized better than those of other countries in the Community, the share of the FRG slightly diminished, similarly to the case of Italy, having also considerable East European economic

interests. On the other hand, the percentage of Britain, France but even the Netherlands grew in the total exports of the EC to the CMEA.

The commodity pattern of trade between the two integrations clearly shows that the historically established complementary division of labour between the two regions still prevails. While the EC sells, above all, machinery, equipment and chemicals to the CMEA, the exports of the latter still consist mostly of raw materials, energy sources, then, further, of agricultural products and industrial goods representing relatively less sophisticated labour. That is, the trade pattern of these two, industrially developed groups of countries is unlike the one characteristic of industrial nations, of the industrial division of labour established worldwide among them. On the contrary, intra-industrial division of labour did not expand during the last decade, that is, during the period when East-West economic relations were developing rapidly. The coefficient of trade overlapping in industrial trade was 41,5 per cent in 1973, 40,4 per cent in 1977, while it increased from 62 to 69 per cent between the EFTA and the EC and from 43 to 54 per cent between the South European countries and the EC<sup>x</sup>. /24/

Further negative tendencies come into sight in the figures of Table 3. It is clear from the statistical breakdown based on the single-digit SITC-positions that the importance of the CMEA in the total exports of the EC decreased in the second half of the 1970s because the CMEA was less and less able,

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x - The corresponding figure in CMEA-EC trade increased in 1980 to 46,7 per cent but this is due to the import restrictions imposed by the CMEA on industrial goods, mostly on machinery, and not to the expansion of the industrial division of labour.

just as a consequence of indebtedness and the import restrictions, to buy up-to-date products. This was the reason why only 3,1 per cent of the exports of machinery of the EC was directed to this region in 1980, while this figure in 1975 still reached 5,5 per cent. A similar decline took place in the group of other industrial goods and a slight one in the exports of chemicals, the latter still remaining the most important item in exports. On the other hand, the importance of the CMEA as an import market did not change in the case of raw materials and, as far as food and agricultural products are concerned, it increased radically. The share of the CMEA in the agricultural exports of the EC was 1,8 per cent in 1975, while in 1980 it increased to 4,1 per cent. Hardly corresponds to the level of industrial development of the West European integration, and even less to the development interests of the CMEA-countries, that the most important export market for the EC in the CMEA, after chemicals, is the group of products of the food-processing industry and agriculture then the group of minerals /and other industrial goods/.

The position of the CMEA-exports is also unfavourable in the total imports of the EC. No doubt, the global share slightly increased but this is due almost entirely to the increase of oil exports and, to less extent, to the expansion of chemical exports. On the other hand, agricultural exports of the CMEA, being a traditional export article, in the total agricultural imports of the EC decreased from 3 per cent to 1,9 per cent in 5 years, reflecting partly the agricultural protectionism of the EC, partly, and it is to be feared, decisively, the especially bad agricultural results and increasing supply difficulties of several CMEA-countries. However, the presence of the CMEA,



being also rather minimal, on the import markets of machinery and finished products of the EC also decreased. In other words: trade in raw materials between the two integrations grew in all respects, a phenomenon not corresponding to the level of development of the EC and the CMEA, on the one hand, and raising still higher the "sensitivity" of this particular trade, and, as is well known, this sensitivity has been amplified exactly by the recent political events anyway.

The second part of Table 3. refers, on the one hand, to the fact that the reliance of the CMEA on markets outside the EC increased in agricultural and machinery exports within the total of its Western trade. On the other hand, and in some cases contradicting the results of the examination from the point of view of the EC, the importance of the EC-markets increased even in those fields where the CMEA is on the decline, again for the EC. In other words this means that the strong international competition prevailing on the import markets of the EC, in many cases the protectionist measures of the West European integration, although give the evidence of the growing problems of competitiveness of the CMEA-exports but, not having other export markets, especially not of this size, their interests were to maintain their exports to the EC even in this unfavourable situation.

The EC gained conspicuously more ground in the OECD-imports of the CMEA, in the case of Agricultural products, and its high percentage in chemicals increased further. As for the import markets of investment goods, the EC hardly lost any ground which refers to the fact that the import restrictions of the CMEA-countries had a negative impact on all exporters of machinery, that is, it wasn't the case that the

EC would have been pushed back by international competition.

The pattern of trade by countries is analysed in Table 4. and Table 5. The fast decline in the importance of machinery imports is clearly reflected in Table 4. because the import curbs could finally be carried out only here. The already established relations of production demanded the continuous supply of basic materials, components, spareparts, therefore there was no possibility to restrict imports in this field without breaking the line of reproduction which might have had a whole number of negative consequences. /This applies especially to chemicals/. Due to the increasing difficulties of self-supply in raw materials within the CMEA, the import share of minerals and energy sources slightly increased, too, admittedly from a rather low level yet. Even these factors would already have caused restrictions to machinery imports but the most decisive thrust, and the really drastic fall, was conveyed by the expansion of agricultural imports. A strong correlation exists, with the exception of Bulgaria, between the fall in the share of machinery imports and the increase in the share of agricultural imports. On CMEA-levels the share of machinery imports fell between 1975 and 1980 by 10,5 percentage points while that of agricultural imports rose by 8,7 percentage points. The corresponding figures for the Soviet Union were 13,7 and 11,2; for the GDR 7,1 and 5,9; for Poland 8,6 and 14,5; for Romania 12,1 and 6,6 percentage points, respectively. The correlation existed in the opposite direction, too: Hungary where results of agriculture were favourable proved to be the only country in which the share, though from the lowest level, of machinery imports slightly increased: the fall of agricultural imports by 1,2 percentage points was accompanied by the rise of the share of machinery imports by 1,3 percentage points.

The changes in the commodity pattern of CMEA-exports to the EC are fundamentally determined by the rapid rise of the exports of energy sources. This stands to reason only in the case of the Soviet Union and partly of Romania. While the importance of energy sources in the exports of the CMEA to the Community grew between 1975 and 1980 from about one-third to over 50 per cent, it increased from 56 to exactly 75 per cent in Soviet exports, from 20 to 44 per cent in the case of Romanian exports. Even in other countries this group proved to be the main driving force of exports: the export share of this group of products grew, in five years, from 3 to almost 14 per cent in the case of the GDR, a country not even disposing of oil resources, from below 8 to near 16 per cent in the case of Czechoslovakia, from a minimal share to over 25 per cent in the case of Bulgaria. The relative importance of agricultural exports decreased drastically which is due to the agricultural regulations only in the case of Hungary and partly of Bulgaria. The main factor in the other cases was bad results of the harvest and the priority given to domestic supply. Except for the GDR and Hungary the export structure of the socialist countries did not improve between 1975 and 1980. The share of machinery and other industrial goods increased only in the exports of these two countries. As for the other cases, a certain, in some instances rather strong, "squeezing out" could be observed and this had its influence on aggregate CMEA-figures, too /here the share of machinery exports fell from 8 to 5,7 per cent, that of other industrial goods by 2,5 percentage points/.

### Artificial Obstacles of CMEA-Exports

Since CMEA-exports to the Common Market are characterized, with the exception of the Soviet Union, by the decisive share of agricultural products and industrial consumer goods where the protectionist-discriminating practice of the EC is the strongest, it is worthwhile to deal more in detail with some major factors hampering CMEA-exports. /The Common Agricultural Policy has already been in operation for one and a half decades therefore we do not deal separately with this factor but we refer briefly to it in the tabular part/.

#### 1. The General System of Preferences of the EC

The preferential trading system of the EC, established in the 1970s, has an unfavourable influence on CMEA-exports in two aspects: On the one hand, these measures in themselves narrow the scope of possibilities for those countries which the EC has not signed a preferential /or other/ agreement with. On the other hand, they increase discrimination between countries enjoying the advantages of the preferential system and those not being in the position to enjoy them. The general system of preferences of the EC between 1971 and 1980 was applied to the so-called "group of 77", that is, practically to all nations belonging to the UN qualified as developing ones. Besides this, the agreement was applied to many dependencies, too. At the end of 1981 when the already second 10-year system of preferences /1981-90/ was in operation, the preferences were already extended to altogether 123 countries and 24 further dependencies /countries or territories/. Some countries received these preferences not on the basis of the categorization of the UN but on a separate request of "admission" /in 1974, Romania, then later, in 1980, the Peoples' Republic of China

requested and received the status of "developing country" from the EC/. It must be noted that those developing countries with whom the EC signed another agreement, too /for instance, countries of the Mediterranean basin or those belonging to the Lomé Convention/, enjoy certain economic and trade preferences even beyond those included in the system of general preferences, too.

The 1971-1980 preferential system regulated industrial and agricultural imports separately. Industrial imports were classified into four categories: in the case of 15 "sensitive" products where production within the EC suffered from structural difficulties and competitive imports put the mere existence of internal production in danger, Community-level quotas were implemented and the export possibilities of countries of origin were maximized. In the case of 28 "semi-sensitive" products preferences were given either on Community or on national levels and the, in most cases high, tariffs were put again into operation if the level of imports reached the contingent set by the Community. The imports of 81 also "semi-sensitive" products were maximized exclusively by a Community ceiling. Finally, the fourth group consisted of "non-sensitive" products where generally there was no import ceiling set on Community levels. /We will discuss sectoral agreements concluded by the EC separately and, besides this, textile products did not even belong to the above categorization/.

Agricultural preferences include about 300 processed foods and refer especially to items the imports of which extend diversification, are indispensable for basic supply and do not expose domestic producers in the EC to competition /mostly tropical products belong to this group/.

The most important lessons of the first ten-year period were, according to EC surveys /10, 19, 20/, as follows:

- The range of "sensitive" products considerably decreased between 1971 and 1980 /from 53 to 15/. But whereas the figure for the initial year includes textile products, that of the closing year does not, because these products have been, since 1977, when the multifibre agreement was signed, regu-

lated separately. Thus the improvement is not so evident, mostly because the items that have remained on the list of "sensitive" products are by and large those in which the exporting abilities of third countries are definitely positive. Especially in the case of CMEA-countries one cannot speak of any improvement because there is no agreement between the two integrations which would extend the preferences of the EC to the socialist countries, too, or it would compensate them /except Romania/ by other means.

- Exporting third countries could not make use adequately of the general preferences because they filled only 55-60 per cent of duty-free contingents.
- Finally, trade preferences were used above average levels only by a limited, narrow range of preferred countries, while some gained practically no advantage at all. Mostly due to their different production and export patterns, levels of development, etc./. About 70 per cent of preferential imports came from only 13 countries /these were, in order of the total value of preferential imports: Yugoslavia, Hong Kong, Brazil, South Korea, India, Malaysia, Romania, Philippines, Singapore, Thailand, Mexico, Pakistan, Iran/. That is, the preferential system of the EC offered real advantages to countries on medium levels of development in the first place, whereas the Community was hardly able or not able at all to contribute to the improvement of export possibilities, to the development of the export structure of the least developed countries.

The preferential system of 1981-1990 introduced, based partly on the experience mentioned above, several modifications. Thus, as a consequence of Greece's entry, it raised contingents for preferential /in fact, duty-free/ imports by 2 per cent but no significant reliefs are to be expected from this measure for the exporters. A much less favourable phenomenon is that,

except textiles, strict import controls were imposed upon altogether 128 "sensitive" products /including 6 steel products/, referring to structural difficulties of production within the EC. With this the earlier categorization of products into four groups disappeared and simply two groups remained: that of sensitive and non-sensitive products. A further tightening measure is that contingents were established for exporting countries not only on Community levels but also on the level of separate EC-countries which further narrows the range of mobility of exports in the case of sensitive products.

The export possibilities of the more competitive countries are limited by letting, with the pretext of supporting least developed countries, products otherwise falling into the sensitive category of 36 countries to the markets of the EC. With this, however, the EC presumably does not improve the export prospects of these least developed economies but succeeds in keeping the really competitive ones out of West European markets. In other words: under the slogan of "help" the real help is given to West European industries which are in serious difficulties, while with this practice world trade is considerably harmed and just the possibilities of access of the rapidly industrializing countries to these markets are curtailed. There are certain exceptions from this in the form of agreements signed by the EC with other integration groups /ASEAN, Central American Common Market, Andean Pact/ because, namely, in these cases contingents were set for the given integration, to be utilized by all members, sometimes even competing with each other on EC-markets /textiles, however, are also an exception here/.

## 2. Sectoral Restrictions

The decline in the international competitiveness of industrial production in the Community, the rapid expansion of rivals and some special problems of internal structure forced the Commission in Brussels to implement a special system of regulations in the steel and the textile industries, primarily to curb imports with protectionist measures.

Steel industry lost, between 1974 and 1981, almost 200 thousand employees as a consequence of West European recession, of the export competition of rapidly industrializing countries and of the structural crisis of the steel industry in the Common Market suffering from an acute surplus of capacities. Therefore a comprehensive programme was implemented in 1977, and has been in practice ever since, in order to strengthen the international competitiveness of the sector. Until the signs of recovery of the West European steel industry are not apparent, the severe import restrictions implemented then will negatively affect the development of world trade and especially the most important steel exporting countries including, not in the least, the majority of CMEA-countries, too. /11/ In order not to lose ground, compared to other third countries, in their export positions, several CMEA-countries signed sectoral agreements with the EC: Hungary and Chechoslovakia in 1978, then later Poland, Bulgaria and Romania, under the conditions of which they received import contingents from the Common Market to 90 per cent of their previous levels of steel exports.

The crisis of the textile industry dates further back and is even more severe than that of the steel industry. The textile and clothing industry as a whole lost, between 1973 and 1979, more than 700 thousand working places and more than 4000 enterprises went bankrupt in the EC. While the domestic demand of the Common Market stagnated /it rose during the period mentioned above by a mere 1 per cent/, the competitiveness of imports rose



dynamically and represented in 1979 already 41 per cent of the total volume of textile and clothing offer within the EC /the figure for 1973 as 21 per cent/. Parallel with this, however still being the biggest exporter of textiles in the world; its deficit in textile foreign trade considerably increased. /11,21

The worldwide crisis of the textile industry led already in 1974 to the establishment of the first international multi-fibre agreement. Brussels considered the problems of the textile industry in the EC later, in 1977 when the first international agreement expired and was prolonged until 1980, as those the solution to which cannot be guaranteed sufficiently only by an international agreement therefore it introduced a general practice to create a system of bilateral agreements with the most important textile exporters.

These agreements were supposed to contain the restrictions The EC wanted to implement in comparison to the text of the multifibre agreement and what was called by the EC as a "rational divergence" from the international agreements. Ultimately this "rational divergence" meant nothing else but curtailing the market positions of the most important textile exporters, fixing export contingents and artificially protecting the textile industry in the Community. The imports of the eight most sensitive textile products grew between 1976 and 1980 on an annual average by only 0,8 per cent whereas these products represented more than 60 per cent of the total textile imports of the EC. /6/

The EC is willing to sign the third multifibre agreement, at present under preparation, only with the condition of further severe import restrictions. Not only does the EC not accept the 6 per cent import increase proposed in the world-

wide proposal but it demands an additional decline of imports by 10 per cent compared to the previous period. Besides this, the EC worked out a so-called "recession clause" which would make, in case of insufficient economic growth, further import restrictions possible. Finally, the EC included another clause into its proposal for the agreement which would offer protection against suddenly increasing exports.

The extremely strict protectionist measures of the EC caused a worldwide protest. Some countries suspended the negotiations already going on while others, like Thailand, tried, breaking the rules of common behaviour accepted earlier on integration levels, to gain special advantages by initiating negotiations and by signing an agreement on its own, instead of acting in the frameworks of ASEAN.

Even West European economic circles admit that the textile agreements of the EC put the big textile exporters of the World into a pronouncedly unfavourable situation. Preferences offered to the last developed countries remain only a dead letter because these countries are not able, due to their own shortages in textiles, to make use of them or because their production is not /yet/ able to compete with that of the EC-countries. At the same time, curtailing the possibilities of competitive suppliers aims explicitly at artificially maintaining the otherwise incompetitive textile and clothing industry in the Common Market without any signs, at the moment, that would refer to the increasing international competitiveness of this particular industry.

Since, however, the EC is the most important textile and clothing importer in the world, the bigger exporters are compelled, in some cases even under very strict conditions, to sign bilateral agreements because otherwise, without such an agreement, they would get into an even more discriminated position.

A major part of them is severely hurt even by the fact that these bilateral agreements improve their positions only compared to third countries, those not having such an agreement with the EC but not at all compared to those having some kind of preferential agreement with the Community /like, for example, Mediterranean suppliers/. The efforts aimed at relatively "squeezing out" the strongest rivals are well demonstrated by the fact that the textile exports of Hong Kong, South Korea, India and Brazil to the EC in the second half of the 1970s grew, on annual average, by only 1,2 per cent, while that of the other suppliers by 3,4 per cent. On top of that, in the case of Mediterranean countries, signing preferential agreements with the EC, the annual growth of textile exports reached 7,4 per cent, while that of Portugal, Spain and Greece, the latter accepted since then as a full member of the Community, could expand their textile exports, again on an annual average, by 9,7 per cent. Finally, the textile exports of countries that signed the Lomé Convention increased at an annual pace of 8,2 per cent, too. As a consequence, bilateral agreements secured, at most, the possibility to maintain /sometimes even not that, as a matter of fact/ the earlier market positions; while these countries definitely lost ground versus those linked to the EC through preferential agreements.<sup>x</sup>

Altogether 25 countries signed a bilateral agreement with the EC in connection with the multifibre agreement of 1977-1981

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x - The share of imports in the textile and clothing demand of the EC grew between 1977 and 1979 by 3,9 percentage points to 41,3 per cent of which the growth of the share of developed industrial countries represented 2,1 percentage points. That of countries signing preferential textile agreements grew by 1,3 percentage points but this increase can be attributed solely to that of the Mediterranean preferential zone. /21/

including, of the CMEA-countries, Romania /already in 1976/, then Hungary and Poland. Bulgaria also signed an agreement /however, Bulgaria is not a member of the multifibre agreement/.. Until July 1982, under the preparations of the textile agreement for the 1983-1986 period, the EC agreed with seven countries, among them with Bulgaria and Poland.

### 3. Dumping Charges and Procedures

One of the most unfavourable consequences of the "non-agreement" situation between the two integrations is that the EC often resorts to dumping procedures against socialist countries, in many cases even when there is not dumping at all. It is worth recalling that the CMEA-countries represent a rather modest share of imports of the Common Market even in the case of products where they have a relative specialization. It is hardly probable that the main obstacle to the international competitiveness of a given West European industry /or group of products/ would be a 3-5 per cent market share of foreign producers. Still, despite this, procedures restricting CMEA-exports are frequent, especially in the iron and steel industry /until not having signed the sectoral agreement/, in the chemical industry /more and more often/ and in the case of certain products of machinery, too. As a result of dumping procedures, either EC-tariffs are raised /temporarily or permanently/ or a certain agreement is concluded /as, for instance, signing sectoral agreements/, both restricting exports of a given group of products to the EC to certain limits. It has not yet been the case that a dumping charge were dropped /when the case was raised by Brussels/ and the corresponding procedure were not initiated. /Table 6. gives information about dumping procedures of the last years/.

After having demonstrated the EC-regulations restricting the exports of the CMEA it serves our aim better to approxi-

mately quantify these effects because the harmful effects of the protectionism of the EC can thus be explained most adequately and this is the best way to have a clear view of how similarly or differently are the separate CMEA-countries hit by the regulations of the EC.

Our examination is limited to iron and steel products, textiles and clothing, all of the regulated by sectoral agreements, although it seems obvious and it is underlined exactly by the anti-dumping procedures that these are, by any means, not the only fields where CMEA-countries must reckon with artificial obstacles. Partly because they are the main targets of dumping procedures, partly due to the renewed criticism of compensations and, finally, because West European organic chemical industry is presently undergoing a severe crisis and this may easily lead to further restrictive measures in the near future. Therefore we have drawn into our examination export figures of organic chemical industry, too.

The share of the four groups of products in Table 7. gradually decreased between 1975 and 1980 in the total exports of the CMEA to the EC, a fact, however, resulting from the distorting effect of the increase in the share of Soviet oil exports, as is clearly visible in the many times increasing shares by countries. What is, however, even more important: these are significant items in the total exports of small CMEA-countries because, for example, one-sixth of Hungarian exports consists of clothing, one-seventh of Bulgarian exports of steel products, one-eighth of Romanian exports again of clothing, a similar share of Czechoslovakian exports of iron and steel products and the exports of the same item also represent more than 10 per cent of the total exports of the GDR.

The unfavourable effects are shown from another aspect in Table 8. The share of the CMEA declined between 1975 and 1980 in the organic chemical, textile and clothing imports of the EC, not quite independently from measures bringing CMEA-countries into unfavourable positions as compared to third countries, and from the lack of adequate contractual relations. The importance of the socialist community increased only in the case of steel imports. All figures are, however, so marginal that measures and successive dumping charges hitting the exports of socialist countries are hard to justify as measures aimed at protecting industrial production within the EC against CMEA-exports. On the other hand, the import market of the EC is especially important for the CMEA-countries in these groups of products: three-fifths of all organic chemical products and textiles, two-thirds of iron and steel products, more than four-fifths of clothing articles /out of their OECD-total/ are sold here. Apart from the rather minimal geographical re-orientation of clothing exports, the relative importance of the EC increased in all other groups of products between 1975 and 1980, that is, the effort to direct socialist exports to other developed regions outside the EC were, despite the obviously unfavourable measures, basically unsuccessful. /In this study we cannot go into the details of its market-specific reasons related also to the domestic economy and production and to the management of foreign trade of these countries/.

The export shares of the four groups of industrial products mentioned above and of agricultural products, the latter notoriously being the most widely regulated item, are summarized in Table 9., showing an approximate picture about to what extent the market penetration of socialist countries is really hampered although, as is well known, protective measures of the EC are extended only to certain groups of products. Partly the forced re-orientation of agricultural exports to other markets, partly the modifications in the export structure of CMEA-countries, by and large diminished the share of products hit by protectionist barriers in total exports but their share is still very high.<sup>x</sup>

The greatest divergence, however, strikes the eye not here but among the different countries. Whereas Soviet exports are practically not hit by restrictions /the share of the groups of products examined in this study in the total exports was 2,4 per cent in 1980/, the share of products falling into the category of restrictions is much higher in the case of small CMEA-countries. It is the highest in Hungarian exports where 56 per cent is subject to one or another EC-regulation. The positions of the other CMEA-countries are slightly more favourable because exports /with the exception of Bulgaria/ influenced by the "market-protecting" measures represent one-fourth, one-third of their total exports to the EC.

Two important conclusions can be drawn from these facts. On the one hand, although CMEA-countries started to modernize the structure of their exports to the EC /more exactly: to diminish the share of sensitive products/ but the structural transformation of exports was slowed down by the "recessive  
x - With the exception of Poland where the export share of sensitive products even increased, certainly not independently from "forced exports" becoming necessary as a result of the country's indebtedness.

force" of their production pattern established earlier and by the fact that in order to balance their rapidly rising imports the obvious reaction, at least in the short run, seemed to be the increase of exports products based on their traditional production structure, despite even the various restrictions they were exposed to /due, if nothing else, to the significant export share, "driving character" of these products/. On the other hand, Common Market regulations had an essentially different influence on the separate socialist countries. We do not only mean the example of the Soviet Union already mentioned but that there are great differences between the small CMEA-countries, too. As for Polish and Romanian exports, both dispose of certain dynamic items offering also some possibility to balance their trade /coal and oil, respectively/. Restrictions affecting the GDR are minor if one considers that EC-regulations don't apply to "intra-German" trade. Since the share of the FRG /and West-Berlin/ in the total EC-exports of the GDR is about 80 per cent, effective restrictions influence only at most 5 per cent of the GDR's EC-exports.

The harmful effect of the EC's trade policy on the other socialist countries is considerably more unfavourable and it can be compensated neither by short-term effects in the product pattern, nor by geographical advantages. This statement is especially true in the case of Hungary which not only exports, in the outstandingly greatest share, "sensitive" products to the EC but initiated, being the first among socialist countries, an export-oriented economic policy based upon opening to the world market. The success of this policy depends, it is hardly necessary to mention, beyond adequate measures in the domestic economy, to a great extent on the behaviour of the foreign economic environment this export-orientation is embedded into.



### The Future of Relations between the Two Integrations

Although no great progress has been reached in the official negotiations between the two integrations, the elimination of this "non-agreement" state between the CMEA and the EC is not less desirable at the beginning of the 1980s than it was earlier, even when the different interests behind it are more contradictory and the possible forms of normalizing the relations have become perhaps more diverse and varied than thought for earlier.

There still exist three circumstances underlying, to a great extent, the promotion of further progress, despite soem partially altered conditions:

1. The level reached in the last years in East-West economic relations, the fact of dynamically and structurally different but, by all means, mutual economic dependence, reasons that the loosening or possible elimination of these relations would cause, for both sides, serious disadvantages. /26/ Relations, frozen in the time of cold war, developed in the period of détente in the first place in the frameworks of the traditional structure and the possibilities thus offered were "played out" almost entirely by the two sides during the 1970s /as it was reflected in the decreasing shares of the recent years, too/. As a consequence, a qualitative change has become necessary.
2. The deterioration of the world's political situation, the intensification of tensions focusses the attention more to the European scene, to the necessity of defending the results of détente achieved so far in which both integrations have basic interests and where the reinforcement of economic relations plays a hardly negligible role.

3. There are also changes taking place in the world economy which may urge these two European regions to co-operate more closely with each other.

Apart from these general reasons, both integrations have their special ones which induce them to promote these relations. They appear, as far as the CMEA, that is, members of the socialist integration are concerned, in a very clear way, while the statements of the EC are characterized by double meanings, by the search for solutions between short-term economic-political considerations and the recognition of long-term tendencies, sometimes even by <sup>the</sup> peculiar "overlapping" and incorporation to each other of national, regional /that is, Community-level/ and global interests and by the necessarily resulting conflicts.

The agreement to be concluded with the EC might bring, beyond its contribution to détente, CMEA-countries a number of direct economic advantages:

- the commercial and economic importance of the West European region which in the last years appreciably decreased not only in one occasion would stabilize, in some cases even strengthen /not independently from the recent American economic measures/;
- the import-restricting policy of the CMEA-countries, followed in recent years, could be replaced more rapidly by a period promising<sup>a</sup> more dynamic expansion of East-West trade, if the conditions of access to markets in the countries of the EC were improved for socialist countries;
- the time-horizon of the structural change being on the agenda in socialist countries could be shortened, the necessary /and, as a matter of fact, indispensable/ tensions accompanying these changes could be eased, if the external economic relations with the most important Western region were able to develop based on stable conditions and not on permanently

insecure political and economic-commercial grounds;  
- last but not least, the process of opening to external economic relations, initiated in some socialist countries, could be reinforced, if the EC were to induce, and not impede, with the help of corresponding steps in trade policy, the development of this process. /27, 29/ It is especially necessary to emphasize this interrelationship because not simply the possible disruption of a course of economic policy regarded as temporary /that is, a tactical step/, but the reversal of a course of development is at stake, the negative consequences of which would be felt in all European countries. /2/ This problem is especially actualized nowadays when a new enlargement is just about to take place in the EC, its system of agreements is extended practically to the whole world and, as a result of its economic-trading power, it is capable of imposing agreements influencing the future of international trade in more and more sectors regarded by the EC as being in danger. Worldwide and especially European détente will hardly gain if this system lacks Eastern Europe as an indispensable and active promoter of European détente and world politics.

The interests of the EC are partly reflected in the official publications of the West European integration, partly they are demonstrated by long-term economic and political trends appearing in the economic literature but which, strangely enough, the EC has until today by and large ignored.

No doubt, the EC points out in official forums the unfavourable effects of the present situation between the two integrations, unsettled questions despite the geographical vicinity and the considerable changes which occurred recently /both in the economic policy and the economic situation of the CMEA-countries and in East-West economic relations/. It also states that "it is absurd, from the political aspect, and

also in the light of the Helsinki Agreement, that the EC maintains normal trade relations with every country of the world and signs special agreements with the majority of these countries whereas the normalization of relations with our direct neighbours still remains to be realized". /5/ At the same time, it underlies that the signing of an agreement with the CMEA as an integration is not desirable either from the political or from the economic point of view.

The economic ideas of the EC are characterized by a similar sort of double standards. While it is unwilling to acknowledge the real interests of the CMEA it brings a number of arguments for strengthening economic relations in fields favourable for it, occasionally forgetting not only interests of the CMEA but also those of certain EC-members. Some of these arguments are the following:

- the intensification of the agricultural exports of the EC, that is: the transfer of a part of the costs of the Common Agricultural Policy requiring higher and higher inputs anyway, to socialist countries, as a continuation of the trend of past years /instead of changing the Common Agricultural Policy itself/<sup>x</sup>;
- the completion of the autonomous import policy with a list of liberalization adapted to the given conditions;
- the reinforcement of efficient measures against the "practice of dumping";
- the realization of real control by the Community over trade between the two German states;
- a Community-level "Code of Conduct" should be worked out for compensation deals.

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x - It is worth the quotation: "Since a number of CMEA-countries are in constant need of agricultural products, the Commission should examine the possibilities of drawing in East European export markets without offering special preferences to the country involved and without hurting the mechanism of the Common Agricultural Policy". /5/

The special feature of the attitude of Brussels concerning the relations with the CMEA and its members is that it tries to play off developing and CMEA-countries, on the one hand, and the CMEA-countries themselves, on the other, against each other. As for the first, the EC tries to reach its aim by constantly emphasizing that developing countries, especially the least developed ones, must enjoy the greatest preferences. This argument contradicts not only the interests of the CMEA-countries but those of a number of rapidly industrializing nations and countries at medium levels of development, moreover, in our opinion, the long-term interests of the EC, too. At the same time, this attitude is supported by those enterprises and industries which are less and less able to compete with international rivals and, in order to survive, they try to impose a kind of economic policy on Brussels which finally may cause the erosion of the world economic importance of the EC. At the same time, the differentiation between the CMEA-countries is hardly recognizable in the economic efforts mentioned above because they include, on the one hand, all member-countries and, on the other, they hit exactly those which are closely linked to the international industrial division of labour or which are just about to do it in these days. This attitude does not try to conceal at all that ultimately it expects political concessions in return for economic ones when it states that the relations to be worked out "must not be at the expense of the industries and markets of the EC". /5/

The viewpoint worked out by the EC reflects basically the ideas of the institutions of the Community and serves the reinforcement of the power of the Brussels "headquarters". This attitude mixes, although, certain national ideas, too, but it is very far from reflecting the interests of all member-

countries /for example, the FRG is hardly interested in controlling intra-German trade at Community levels; the "Code of Conduct" for compensation deals or the unification of the "dumping practice" is not the main effort of economic policy for all countries towards the CMEA, either, etc./

Global, world economic considerations do not support the standpoint of the official bodies of the EC, either. Economic parameters of the widest character all show that the world economic position of the EC has not become stronger in the last years, to say the least. The dynamic region of world economic growth in the 1980s will not be Western Europe but the USA, the Pacific region and some oil-exporting countries. The shift of the growth centre from the Atlantic region to more distant ones, a phenomenon characterizing the history of capitalism ever since its appearance, cannot leave the EC as the central seed of the West European region intact, either.

The move away from the main arteries of world economic development may amplify difficulties and braking forces of the domestic economic life of countries, being already rather significant, which can be coupled with the deterioration of social climate /the rise of unemployment, the modification of the welfare state as a consequence of budget problems/. /17/ The raw material and energy crisis will have a more<sup>un</sup>favourable impact on the Common Market relying mainly on imports in these products, that is being more dependent on the outside world, even if the effects of the crisis will be less severe in the next decade than they were between 1973 and 1980. The technological gap which gradually narrowed between the USA and Western Europe in the 1970s will, according to all signs, widen again in favour of the US and Japan. Finally, the competition of the USA, Japan and the rapidly industrializing countries will become stronger on West European markets which, in case the pre-

sent practice prevails, may lead to a number of further "market-protecting" measures. It is thus hardly doubtful that the intensification of protectionist tendencies in the EC as being the region mostly relying on international trade may hit back as a boomerang and may, in the first place, hit the West European economies depending to such a great extent on exports<sup>x</sup>. Taking all this into consideration, long-term trends may make exactly the CMEA-countries the "natural" partners for the EC. Therefore the following steps would also be interest of the EC:

- the opening, gradual liberalization of strongly protected EC-markets for the socialist countries which could be utilized primarily by the small nations of the East European integration, being exporters of industrial goods, would not cause balance of trade problems for the EC;
- on the contrary, the more balanced trade between the individual members of the two integrations would serve the export interests of the EC as well. /3/ One must especially refer here to that the increase of machinery imports of the socialist countries would open up possibilities for the modern West European industries developing in the spirit of an offensive industrial policy and would also contribute to their international competitiveness /28/;
- co-operation in the field of energetics in all-European frameworks /mostly meaning CMEA-EC contacts/ would significantly improve the security of supplies of the EC while it could also contribute, beyond its role played in improving

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x - The share of the EC in world exports declined in the 1970s by exactly 3 percentage points, mostly due to the falling share of exports to third countries which represented 17,9 per cent in 1970 and only 15,5 per cent in 1980, of world exports. The loss of ground has been especially fast after 1978. On the contrary, the position of both the US and Japan in world trade has improved relative to that of the EC.

or at least preventing the deterioration of the political climate, to the establishment of multilateral economic relations;

- the expansion of the international division of labour in the field of industry being perhaps the most significant economic development of the coming decades requires, as is well known, adequate partners. The surplus of capital of the United States, the technological capacity of the US and Japan /having in the vicinity the Latin American and the Far Eastern regions with economies at medium levels of development and rapidly increasing performance/ can be counter-balanced by the own forces of the EC only partially: its research potential is more limited and more scattered /national frameworks/; and the rapidly expanding markets are rather far geographically /the African countries which signed the Lomé Convention can hardly offer an industrial background to the EC as the Far East does to Japan or Latin America to the USA/. The reserves of the division of labour in Western Europe are not exhausted yet and the institutional inclusion of the South European region into the West European context can release an additional source of energy but one cannot expect significant changes, those improving the competitiveness of the region compared to the US or Japan. In order to "survive" in the international competition one requires more and more to expand towards regions geographically nearer in the industrial division of labour. From this point of view the CMEA-countries offer several advantages /the relative development of technical levels, the abundance of trained manpower, market sizes, geographical vicinity, historical and cultural traditions/;



- finally, the institutionalization of the relations between the two integrations could contribute to the upgrading of the importance of the EC as an integrational political factor, too. Partly because such an agreement could positively influence the international détente process, partly, and more indirectly, because as a result of the agreement the economic potential and, through the foreign economic relations, the influence of the EC on world politics would increase, too./16/

Long-term considerations reasoning the more organic establishment, the institutionalization of relations still exist on both sides. Doubtlessly, the motives of concluding a direct agreement between the two integrations are, mainly because of world political considerations and pressures, less intensive in these days. Besides this, the failure of CMEA-EC talks in the second half of the 1970s had also their mark on the superficial stratum of relations. Therefore the search for other forums to enter into relations with each other is justified from many aspects. In our opinion this approach is induced not only by the failure at integrational levels so far and by global political factors but also by "positive forces", that is, by the reciprocity between the changing economic situation of the last years and the interest in maintaining the process of European détente.

The fact that certain CMEA-countries accepted the conditions of the EC for the steel and textile industry and that a trade agreement was signed already at the end of the 1970s between Romania and the EC show, the latter at least partially, the very real /moreover, vital/ economic interests to establish new forms of relations. At present it seems unlikely that the EC could, even if it wished to, sign an agreement, filled with clear political "loading", with the CMEA. This would, namely, increase the already strong American pressure and

would, for the EC unfavourably, influence the outcome of the economic "exercising", aimed at sizing up each other, between the US and Western Europe /technological embargo, gas-pipeline business, hindering the imports from the Soviet Union/.

Therefore the arguments for signing an agreement between the EC and several CMEA-countries may become stronger in the coming years. This process would doubtlessly influence favourably the small socialist economies, including, not in the last resort, as one could see, the Hungarian economy. All of them suffer from problems in the external economy, from difficulties of exports and they are all linked relatively closely to the EC. The advantages of an agreement would, however, not be confined only to these factors: by opening up bilateral channels one could reach, sooner or later, the establishment of contractual relations between the two integrations, too. The politically favourable effects could be expected in European détente even within a shorter period of time if only because thus the decade-long diplomatic football game which, and this is already clear on both sides today, can have only losers in the 1980s, would, at last, come to an end.

Table 1

Trade between the EC and the CMEA<sup>x/</sup>

	1975	1979	1980	1981
exports of EC /m\$/	14480	19790	22452	19696
imports of EC /m\$/	9999	21013	25953	25211
trade balance	+ 4481	- 1223	- 3501	- 5515
share in total exports of EC	4,9	3,4	3,5	3,2
in total imports of EC	3,4	3,5	3,8	3,9
in CMEA-exports to OECD	56,7	60,5	64,2	61,7
in CMEA-imports from OECD	55,9	51,6	54,9	.
import coverage ratio				
EC	144.5	94,2	83,8	78,1
CMEA	69,1	106,2	119,3	128,0

<sup>x/</sup> excluding trade between the GDR and the FRG.

Source: OECD Statistics of Foreign Trade... Monthly Bulletin  
/Serie A/, various issues.

Table 2

Trade of the EC with individual CMEA-countries

	1975	1980	1981	1975	1980	1981
	millions of \$			share %		
	<u>Exports of EC</u>					
CMEA TOTAL x/	14480	22452	19696	100	100	100
Soviet Union	6095	10304	8930	42,1	45,4	45,3
GDR x/	568	1115	1217	3,9	5,0	6,2
Poland	3275	3815	2894	22,6	17,0	14,7
Czechoslovakia	1258	1804	1600	8,7	8,2	8,1
Hungary	1183	2139	2171	8,2	9,5	11,0
Romania	1294	2270	1805	8,9	10,3	9,2
Bulgaria	807	1006	1079	5,6	4,6	5,5
	<u>Imports of EC</u>					
CMEA TOTAL x/	9999	25953	25211	100	100	100
Soviet Union	4285	14350	15245	42,9	55,8	60,5
GDR x/	561	1162	1265	5,6	4,5	5,0
Poland	1973	3564	2479	19,7	13,8	9,8
Czechoslovakia	1020	2016	1788	10,2	7,5	7,1
Hungary	853	1885	1649	8,5	7,1	6,5
Romania	1071	2409	2119	10,7	9,0	8,4
Bulgaria	236	568	666	2,4	2,4	2,6

x/ excluding trade between the GDR and the FRG.

Source: see Table 1.

Table 3

Trade between the CMEA and individual EC member countries

	1975	1979 <sup>1</sup> total EC = 100	1980	1981
<u>Exports of EC</u> <sup>1</sup>				
FR of Germany <sup>1</sup>	44,6	43,9	42,6	38,7
France	18,0	20,4	20,5	19,9
Italy	15,0	13,3	12,1	12,7
United Kingdom	8,9	9,1	11,6	12,5 <sup>2</sup>
Netherlands	5,5	5,8	6,3	7,0
Belgium-Luxembourg	5,8	5,3	5,8	5,6
Denmark	2,0	1,8	1,7	1,5
Ireland	0,2	0,4	0,5	0,4
Greece <sup>3</sup>	-	-	-	1,8
<u>Imports of EC</u> <sup>1</sup>				
FR of Germany <sup>1</sup>	32,1	38,0	31,2	29,8
France	16,9	15,7	19,4	19,6
Italy	19,2	17,7	19,7	18,7
United Kingdom	11,5	10,5	11,0	9,9 <sup>2</sup>
Netherlands	7,9	8,6	8,5	10,5
Belgium-Luxembourg	6,2	5,0	6,0	6,2
Denmark	5,2	3,6	3,8	2,5
Ireland	0,9	0,9	0,5	0,4
Greece <sup>3</sup>	-	-	-	2,3

<sup>1</sup> excluding trade between the GDR and the FR of Germany

<sup>2</sup> calculated figure based on total data of EC

<sup>3</sup> included from 1981, the admission of Greece

Source: see Table 1 /latest issue: August 1982/

Table 4

Trade between the EC and the CMEA classified  
by main SITC-categories<sup>x/</sup>

## Share of CMEA in

	total exports of EC		total imports of EC	
	1975	1980	1975	1980
SITC 0 + 1 + 4	1,8	4,1	3,0	1,8
SITC 2	3,5	3,5	5,5	4,6
SITC 3	0,8	0,7	5,9	8,4
SITC 5	6,0	5,5	2,5	2,9
SITC 6 + 8	5,8	3,5	2,9	2,7
SITC 7	5,5	3,1	1,3	1,0
total	4,9	3,5	3,4	3,8

## Share of EC in

	OECD-exports of CMEA		OECD-imports of CMEA	
	1975	1980	1975	1980
SITC 0 + 1 + 4	64,2	61,4	17,1	31,7
SITC 2	51,7	57,1	24,8	26,6
SITC 3	53,4	63,0	63,5	59,8
SITC 5	57,5	60,3	66,7	70,5
SITC 6 + 8	62,3	66,5	63,6	56,9
SITC 7	52,9	49,5	63,5	62,4
total	56,7	64,2	55,9	54,9

x/ excluding trade between the GDR and the FRG.

Source: OECD. Trade by Commodities, 1975 and 1980. /Serie C/

Table 5

Commodity pattern of CMEA-imports from the EC  
/one-digit SITC-positions/

		0+1+4	2	3	5	6+8	7
		Mls. of Dollars					
CMEA total <sup>x/</sup>	1975	590	308	127	1960	5451	5941
	1980	2874	680	373	4190	7307	6840
Soviet Union	1975	206	53	17	597	2530	2666
	1980	1508	176	73	1685	3715	3095
GDR <sup>x/</sup>	1975	57	27	1	137	169	174
	1980	177	103	17	215	328	282
Poland	1975	143	75	28	387	1222	1382
	1980	721	95	37	694	940	1283
Czechoslovakia	1975	65	65	13	293	236	472
	1980	142	116	15	474	421	615
Hungary	1975	62	41	4	292	448	326
	1980	85	83	31	5140	753	618
Romania	1975	28	32	55	163	481	529
	1980	199	66	191	384	761	653
Bulgaria	1975	29	15	9	91	265	392
	1980	42	39	9	199	389	314
		in per cent					
CMEA total <sup>x/</sup>	1975	4,1	2,1	0,9	13,5	37,6	41,0
	1980	12,8	3,0	1,7	18,7	32,5	30,5
Soviet Union	1975	3,4	0,9	0,3	9,8	41,5	43,7
	1980	14,6	1,7	0,7	16,4	36,1	30,0
GDR <sup>x/</sup>	1975	10,0	4,8	0,2	24,1	29,8	30,6
	1980	15,9	9,2	1,5	19,2	29,4	23,5
Poland	1975	4,4	2,3	0,9	11,8	37,3	42,2
	1980	18,9	2,5	1,0	18,2	24,6	33,6
Czechoslovakia	1975	5,2	5,2	1,0	23,3	26,7	37,5
	1980	7,9	6,4	0,8	23,3	23,3	34,1
Hungary	1975	5,2	3,5	0,3	24,7	37,9	27,6
	1980	4,0	3,9	1,4	25,2	35,2	28,9
Romania	1975	2,2	2,5	4,3	12,6	37,2	40,9
	1980	8,8	2,9	8,4	16,9	33,5	28,8
Bulgaria	1975	3,6	1,9	1,1	11,3	32,8	48,6
	1980	4,2	3,9	0,9	19,8	38,7	31,2

<sup>x/</sup> excluding trade between the GDR and the FRG.

Source: see Table 4 and the author's own calculations.

Table 6

Commodity pattern of CMEA-exports to the EC  
/one-digit SITC-positions/

		0+1+4	2	3	5	6 + 8	7
		<u>Mls. of Dollars</u>					
CMFA total <sup>x/</sup>	1975	1341	1418	3445	543	2351	802
	1980	1529	2399	13250	1618	5459	1488
Soviet Union	1975	206	872	2389	195	436	159
	1980	126	1408	10677	822	971	249
GDR <sup>x/</sup>	1975	122	38	16	96	195	92
	1980	64	49	158	174	498	208
Poland	1975	312	202	740	66	422	209
	1980	521	408	814	132	1220	440
Czechoslovakia	1975	79	128	79	76	463	172
	1980	116	270	315	174	869	244
Hungary	1975	307	78	6	47	330	71
	1980	459	138	82	189	791	198
Romania	1975	223	84	211	51	421	76
	1980	143	85	1058	78	932	103
Bulgaria	1975	92	16	4	12	84	23
	1980	100	41	145	49	180	46
		<u>in per cent</u>					
CMFA total <sup>x/</sup>	1975	13,4	14,2	34,5	5,4	23,5	8,0
	1980	5,9	9,2	51,1	6,2	21,0	5,7
Soviet Union	1975	4,8	20,4	55,8	4,6	10,2	3,7
	1980	0,9	9,8	74,4	5,3	6,8	1,7
GDR <sup>x/</sup>	1975	21,7	6,8	2,9	17,1	34,8	16,4
	1980	50,5	4,2	13,6	15,0	42,9	17,9
Poland	1975	15,8	10,2	37,5	3,3	21,4	10,6
	1980	14,6	11,4	22,8	3,7	34,2	12,3
Czechoslovakia	1975	7,7	12,5	7,7	7,5	45,4	16,9
	1980	5,8	13,4	15,6	8,6	43,1	12,1
Hungary	1975	36,0	9,1	0,7	5,5	38,7	8,3
	1980	24,4	7,3	4,4	10,0	42,0	10,5
Romania	1975	20,8	7,8	19,7	4,8	39,3	7,1
	1980	5,9	3,5	43,9	3,2	38,7	4,3
Bulgaria	1975	39,0	6,8	1,7	5,1	35,6	9,7
	1980	17,6	7,2	25,5	8,6	31,7	8,1

<sup>x/</sup> excluding trade between the GDR and the FRG.

Source: see Table 4 and the author's own calculations.



Table 7

Some sensitive product groups of CMEA-exports  
to the EC

		SITC-positions mls. of dollars					share in total exports in per cent			
		51	65	67	84		51	65	67	84
CMEA total <sup>x/</sup>	1975	315	211	388	505	3,2	2,1	3,9	5,1	
	1980	364	415	931	995	1,4	1,6	3,6	3,8	
Soviet Union	1975	130	28	72	0	3,0	0,7	1,7	0,0	
	1980	78	49	103	0	0,5	0,3	0,7	0,0	
GDR <sup>x/</sup>	1975	47	19	24	9	8,4	3,4	4,3	1,6	
	1980	34	40	120	19	2,9	3,4	10,3	1,6	
Poland	1975	31	34	33	110	1,6	1,7	1,7	5,6	
	1980	41	76	142	209	1,2	2,1	4,0	5,9	
Czechoslovakia	1975	48	65	134	66	4,7	6,4	13,1	6,4	
	1980	61	120	233	113	3,0	6,0	11,6	5,6	
Hungary	1975	29	29	37	155	3,4	3,4	4,3	18,2	
	1980	102	59	120	316	5,4	3,1	6,4	16,8	
Romania	1975	24	33	61	134	2,2	3,1	5,7	12,5	
	1980	29	58	137	286	1,2	2,4	5,7	11,9	
Bulgaria	1975	6	3	27	31	2,5	1,3	11,4	13,1	
	1980	18	13	76	52	3,2	2,3	13,4	9,2	

x/ excluding trade between the GDR and the FRG.

SITC 51 - organic chemicals

SITC 65 - textiles

SITC 67 - iron and steel

SITC 84 - clothing

Source: see Table 4 and the author's own calculations.

Table 8

Relative importance of the CMEA exports of sensitive industrial products x/

		SITC - positions			
		51	65	67	84
Share in total EC-imports of the product group	1975	3,6	2,0	3,1	6,0
	1980	2,3	1,8	3,7	4,9
Share of the EC-market in total OECD-exports of the CMEA	1975	59,1	61,5	57,0	86,0
	1980	60,1	61,6	68,1	82,0

x/ excluding trade between the GDR and the FRG.

Key to SITC positions see Table 7.

Source: own calculations based on OECD-statistics /see Table 4/.

Table 9

Share of discriminated product groups in CMEA-exports  
/in per cent. of total exports to the EC/

	industrial goods x/		agricultural products xx/		t o t a l	
	1975	1980	1975	1980	1975	1980
CMEA total <sup>xxx/</sup>	14,3	10,4	13,4	5,9	27,7	16,3
- excluding oil exports	21,8	21,3	20,5	12,1	42,3	33,4
Soviet Union	5,4	1,5	4,8	0,9	10,2	2,4
GDR <sup>xxx/</sup>	17,7	18,2	21,7	5,5	39,4	23,7
Poland	10,6	13,2	15,8	14,6	26,4	27,8
Czechoslovakia	30,6	26,2	7,7	5,8	38,3	32,0
Hungary	29,3	31,7	36,0	24,4	65,3	56,1
Romania	23,5	21,2	20,8	5,9	44,3	27,1
Bulgaria	28,3	28,1	39,0	17,6	67,3	45,7

x/ SITC 51, 65, 67, 84 /for key see Table 7/

xx/ SITC 0 + 1 + 4 /agricultural goods, beverages, vegetable  
and animal oils and fats/

xxx/ excluding trade between the GDR and the FRG

Source: see Table 4 and the author's own calculations

Table 10

Main statistical figures of the trade  
of the European Communities

	1970	1975	1980	1981
<u>Share in world trade</u>				
- EC-exports	35,8	34,1	33,2	30,5
- EC-imports	35,8	33,7	35,5	31,5
- extraregional exports	17,9	17,2	15,4	15,0
- extraregional imports	17,0	15,9	18,4	16,6
<u>For comparison</u>				
- exports of USA	13,6	12,2	10,9	11,7
- imports of USA	12,1	11,4	12,5	13,5
- exports of Japan	6,1	6,4	6,5	7,8
- imports of Japan	5,7	6,4	6,9	7,1
<u>EC-CMEA trade in world trade<sup>x/</sup></u>	2,4	2,9	2,5	2,3
- EC in total exports of CMEA <sup>x/</sup>	14,1	13,8	19,0	15,3
in total imports of CMEA <sup>x/</sup>	15,6	17,2	15,4	12,8
- CMEA in total exports of EC <sup>x/</sup>	3,4	4,9	3,5	3,2
in total imports of EC <sup>x/</sup>	3,5	3,7	3,8	3,9

<sup>x/</sup> excluding trade between the GDR and the FRG.

Source: United Nations. Monthly Bulletin of Statistics. July and August /Nos. 7-8/, 1982 and the author's own calculations.

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7

THE MAIN TRENDS OF AND EXPERIENCE WITH EAST-WEST  
INDUSTRIAL CO-OPERATION

by

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1982

4504



The main trends of and experience with East-West  
industrial co-operation

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1. The general trends of East-West trade

The new long-term stage of development of the world economy, which emerged in the seventies, modified on a wide range not only the external conditions for growth for some countries and country groups, but also the trends in the international division of labour. The East-West trade relations were influenced also - far from independent of the world economic changes - by movements of an autonomous nature /the advance of neo-conservatism, the modification in the strategic way of thinking, the deterioration of Soviet-American relations/ , which part/ occurred in the political sphere /foreign policy, domestic policy and military policy/.

The international precesses which took shape in the seventies, the slow-down of the economic growth rate extended and strengthened in the OECD and the CMEA countries the deterioration of their world economic positions which it had been possible to observe in the longer run. In the decade 1970-80 the weight of the OECD countries diminished from 73% to 64% in world exports, and from 72% to 70% in world imports, while in the case of the CMEA countries their

weight in the world economy was reduced on the export side from 9.8% to 7.8%, and on the import side from 8.8% to 7.6 per cent. The trends of East-West trade were fundamentally influenced in the past decade also by the circumstance that it took place between two groups of countries the weight of which was diminishing in the world economy and in world trade. In the average of the first half of the seventies, east-west relations still represented 3% of world trade, in 1980 already but 2.4 per cent. Out of the total exports of the OECD countries, in 1980, 3.8% went to the European CMEA countries, and only 3.1% of their total imports came from there; at the same time the OECD countries represented a share of 35% in CMEA imports and 30% in CMEA exports. The order of magnitude of OECD relations with the CMEA countries lags considerably behind the present level of and medium term outlook from economic co-operation with the Far-Eastern or the Latin-American developing countries.

Table 1

Main indices of the dynamic of East-West  
trade /%/

	OECD exports			OECD imports		
	To the Soviet Union	To the other CMEA count- ries	CMEA total	From the Soviet Union	From the other CMEA count- ries	CMEA total
<u>Growth in volume</u>						
1975	43	4	20	7	1	4
1976	22	4	13	23	14	18
1977	-10	-7	-9	2	6	4
1978	15	2	9	1	2	1
1979	1	1	1	-2	3	1
1980	8	-4	3	-6	-1	-3
1981 I-VI	27	-17	7	-6	-8	-7
<u>Growth at current prices</u> <u>/in US \$/</u>						
1975	66	12	32	6	9	6
1976	-9	-1	5	22	9	17
1977	0	2	1	14	10	12
1978	16	19	17	14	14	14
1979	20	17	18	41	26	35
1980	14	9	12	29	11	19
1981 I-VI	28	-16	9	5	-7	0

Source: ECE Economic Bulletin for Europe, 1981

In the longer perspective the purchases of the CMEA countries have increased at a more rapid rate in East-West trade than their sales.

Table 2.

Balance of the CMEA countries in their trade with  
the OECD countries  
/in US \$ 1000 million/

	1975	1976	1977	1978	1979	1980
<u>CMEA countries</u> <u>total</u>	-9,0	-7,2	-4,6	-6,3	-2,9	-0,4
Including: Soviet Union	-4,3	-3,5	-1,8	-2,3	+0,5	+2,9
Other CMEA countries	-4,7	-3,7	-2,9	-4,0	-3,4	-3,3

Source: Economic Bulletin for Europe, 1981

The rate at which imports of the CMEA countries were covered by their exports was 83% in the average in the seventies, 93% in 1980, and according to estimates 87% in 1981.

The sum of debt servicing burdens arising from credits raised earlier amounted in the annual average of 1979-81 already to three times the amount of the 1975-78 annual order of magnitude, and within the east-west current payment relations the greater

share of the imbalance has been caused since 1978 by the increased debt servicing burdens. In the given circumstances, the requirements for a combined equilibrium in the longer term urge the disappearance of the imbalance of trade or the ensuring of the availability of further external financial resources to an increasing extent.

Table 3

Product structure of western exports of the CMEA  
countries  
/In main product groups, %/

	Soviet Union				Other CMEA countries			
	1971- 1976	1976- 1980	1979	1980	1971- 1975	1976- 1980	1979	1980
Food products and live animals	2,5	1,1	1,1	0,8	19,5	13,0	12,3	11,0
Beverages, tobacco	0,2	0,2	0,2	0,1	0,9	1,0	0,9	0,8
Raw materials	27,2	16,0	14,2	12,2	9,9	8,6	8,7	8,5
Primary energies	42,7	58,9	58,6	65,5	14,5	18,3	18,8	21,1
Oils and fats	1,6	0,2	0,1	0,1	1,3	0,7	0,6	0,4
Chemicals	3,6	6,0	7,4	5,7	6,8	7,4	7,1	8,5
Engineering products	4,6	4,5	5,2	3,5	12,7	14,5	14,3	13,9
Other industrial products	17,7	13,1	13,3	12,1	34,4	36,7	37,3	35,8

Source: ECE Economic Bulletin, 1981

In a world economic situation which in characterized by the sharpening competition of supply, the structural changes of the individual national economies, the speed of their adjustment are indicated primarily by changes in export specialization. The product structure of the western exports of the CMEA countries, which had joined in the international industrial division of labour with a historic lag, relying on the legacy of the so-called import-substituting, inward-looking development strategy, improved somewhat between 1965 and 1975, and in the exports of the smaller CMEA countries the share of industrial products increased.

However, at the end of the seventies, the product structure did not only ... keep up with the structural change in the world economy and world trade but it fell behind even in comparison to results achieved earlier. Nearly one fifth of the 1980 exports of the smaller CMEA countries, and approximately two thirds of Soviet exports were accounted for by primary energies /fuels/, and among industrial products a forceful expansion of supply could only be experienced in the case of chemical products, in which there is a world-wide oversupply. On the import side, the share of machinery and equipment - affecting most the general economic and structural-technical progress, the competitiveness, - in the average of 1971-75 still amounted to 34%, but diminished in 1980 to 27% of the Soviet and 28% of the other European CMEA country imports. Parallel to this the share of food products increased from 14% to 18% and from 9% to 16% respectively.

Changes have been experienced also in the structure of partner countries. In the quarter century following the end of World War II an inter-connection existed whereby in the period of the COCOM policy or of greater political tensions the neutral countries played a much greater role in east-west relations, the absence of political discrimination stimulating the development of contacts, and the neutral countries fulfilled also an important intermediary function. At the beginning of the process of détente, in 1970, the four neutral European developed OECD countries, Austria, Switzerland, Finland and Sweden accounted for 8% of the total exports of the OECD countries, but shared in their "eastern" exports with a weight of 20 per cent. In the seventies the small neutral countries found it more difficult to cope with the requirements of structural development, buy-back, financing and economic organization connected with the nature of the import demand of the CMEA countries, and their weight was in 1979 already only 16% and 1980 15 per cent. At the same time, the importance of the two leading powers in world trade, the FRG and the USA, rose rapidly in the western deliveries. It was generally the large corporations of the leading powers in world trade that disposed of the complex skill, more extensive organizational background, technology supplying capacity, potential for "sitting out" the longer time needed for the conclusion of contracts, of their implementation and return, which were needed for co operation in the investment projects of the CMEA countries, and for the solution of the novel problems which occurred in co-operation between the capitalist and the socialist enterprises. Thus the share of the USA within the western

deliveries was 6% in 1970, 15% in 1979, 10% in 1980 /year of the Carter boycott/, and that of the FRG in the same years 21%, 23% and 25%. As may be seen at present these two countries account for almost one half of the western deliveries. A similar rapid concentration, as far as partner countries are concerned, can be experienced on the "eastern" side of trade between the two country groups.

Table 4

Country breakdown of CMEA trade with OECD countries

	/ % /			
	Exports		Imports	
	1970	1980	1970	1980
Soviet Union	42,1	58,0	40,7	50,1
Poland	17,1	12,5	12,4	14,8
GDR <sup>x/</sup>	6,6	6,4	6,8	6,2
Czechoslovakia	11,7	8,0	12,2	7,4
Hungary	8,8	6,4	9,9	7,7
Romania	9,1	7,7	11,1	9,0
Bulgaria	3,8	2,3	2,3	3,9

<sup>x/</sup> Excluding intra-German trade



A survey of the general trends of east-west relations shows that in recent years the dynamism which had earlier existed in the development of relations was interrupted, and the indicators of structural transformation or of the equilibrium are not promising from the aspect of long-term evolution either. The asymmetry of interests connected with the different world trade importance of the two groups of countries is on the increase.

Developments in the trends of East-West trade indicate a differentiation, a loosening homogeneity of the substance of the problems. On the western side, the interests and manœuvring abilities of the leading trade powers and of the small neutral countries differ increasingly. The positions of the Soviet Union and of the other CMEA countries in respect of East-West trade are less and less similar. The changes in the international terms of trade had an extremely favourable influence on Soviet trade, the Soviet Union being an attractive external economic partner on account of its considerable purchasing power and the strategic importance of its export offer, and being less vulnerable in the short-term to various economic policy pressures. On the other hand, the positions of the smaller Central European CMEA countries, which earlier used to be the backbone of East-West relations, deteriorated continuously in the seventies, and owing to the lasting unfavourable price changes, their indebtedness, the vulnerability of

their export offer and its low dynamic, they began to be driven in recent years to the peripheries of east-west trade and of world trade. Differences are also increasing in respect of the world economic elbow-room available to the smaller CMEA countries. This process of differentiation which can be observed on both sides, by itself puts a question mark to the practical value of findings and the identification of problems relying on the examination of East-West trade in large aggregates.

## 2. Factors influencing the development of relations

On the basis of the legacy of experience with the international situation which took shape in the 1930's, with the general growth and external economic strategies, and later with the COCOM policy of the fifties, many experts of East-West relations consider the driving forces of economic relations between the two groups of countries to be of a political nature. The view expounded by G. Myrdal, the Nobel-prize laureate Swedish economist is widely accepted by experts living both in the OECD and in the CMEA countries, according to which every important change in the stages of the development of East-West relations can be explained by political factors. These views have gathered momentum especially since the end of the seventies, in the wake of the announcement of embargo measures by Presidents Carter and Reagan respectively.

The more recent views stressing the political determination of East-West trade relations rely on changes in the international economic and technical evolution, in the strategic way of thinking, and the novel interrelations between them. The intensification of the international division of labour after World War II, the internationalization of the evolution of the forces of production increased continually the extent to which the individual national economies were intertwined externally. The value of world trade /exports and imports/ in relation to the GDP of the world was only 15% in 1938, but 33% in 1980. The level of specific costs of the building up of efficient research and development capacities needed for technical progress, which is of great importance from the aspect of economic growth and of competitiveness, has been increasing rapidly, the interest in the reduction of the social costs of technical development and structural transformation have stimulated and enforced international economic co-operation in a broadening circle. At the same time, parallel to the increase of the complexity of technical progress, of its demand on the social-economic environment, of its costliness and sensitivity to time, the methods of "technological copying" which had still been very successful in the Japanese growth at the beginning of the century and which circumvent patent rights, have more and more limited field of

rational application, require more and more inputs, and owing to their time-consuming nature appear to be less and less expedient. On the other hand the dependence on imports, which had increased in the wake of the increasing exhaustion of the mineral resources of the industrially developed countries raised in the seventies from the side of the natural resources problems of supply security.

The increased dependence of the individual national economies on the world economy created at the same time an objective material foundation for foreign trade relations serving aspects of power politics to a much greater extent than earlier, since in the countries sensitive to external economic influences the unexpected closing of the sales outlets or of the sources of procurement could force the affected trading partners to enter into costly "substitution" programmes and onto forced growth paths /and may also cause social-political tensions/. Owing to the strategic balance which had come about by the seventies, and to the limitations of making use of instruments of military policy, the external economic relations advanced to become strategic instruments apt to influence the international power relations.

In East-West relations, in the sixties and in the first half of the past decade, the barriers applied from the western side in co-operation between the two groups of countries were moderated. However, in the wake of the deterioration of Soviet-American relations,

the Carter Administration attributing strategic importance to the American "food weapon", ordered a grain embargo against the Soviet Union in 1980. Owing to the extremely limited results of the grain embargo, and to the losses occurring in American exports, the embargo measures of the Reagan Administration, at the end of 1981. desired to exert political pressure primarily through the restriction of technology exports.

The application of technological pressure is not a new phenomenon either; the American measures tightening the exporting of modern technology to the CMEA countries have increased in number since 1977. Following the American steps, COCOM /the Nato committee co-ordinating the export to the socialist countries of products qualified as strategic/, at its Paris meeting on January 19-20, 1982 ordered the the tightening of the control of the export prohibitions proclaimed earlier.

As may be seen, the presence of power-political intentions connected with the application of political pressure is undeniable in East-West relations. On the other hand, international experience with the long-term history of "intentions" directed at the regulation of economic processes on the governmental level draws attention to the circumstance that decisions on the governmental level do not yet mean automatic

implementation, and the lack of harmony between the formulated strategic goals and implementation can be especially substantial if the objective economic laws and interest relations are disregarded, even if only in part.

The trends of the actual trade turnover certainly put a question mark to the political determination of East-West relations. "Power politics" was not directed at the western imports from the CMEA countries but at the technological exports to the CMEA countries or to grain exports to the Soviet Union respectively, and its geographic target was also Soviet imports; thus the western imports of the Soviet Union should have dropped. The real "sensitivity to politics" of Soviet-Western trade is characterized sufficiently by the fact that in spite of the measures of export prohibition the western imports of the Soviet Union increased in 1980 at current prices by 20%, in the first half of 1981 by 16%, and at the same time the western imports of the small CMEA countries not affected by the political restrictions increased by only 8% in 1980 and decreased by as much in the first half of 1981. The expansion of Soviet imports is the more noteworthy seeing that in 1980 the total exports of the OECD countries increased by 18%, and in 1981 they decreased by 2%. Consequently the OECD export restrictions did not only not have an export diverting effect but in both years exports to the Soviet Union grew at a faster rate than total OECD exports.

In the case of a review of half a decade it can be established that compared to the first half of the seventies the growth rate of Soviet imports of engineering product groups that can be qualified of strategic importance diminished continuously. So for instance, the growth rate of the imports of nonelectric engineering products /SITC 71/ was 14% in 1977, 7% in 1978, 6% in 1979, and -5% in 1980, that of electric machinery /SITC 72/ 41%, 19%, 8% and 7% respectively. Although the growth rates of the engineering imports which are politically sensitive indicate a diminishing dynamism, this is not necessarily the consequence of the export restrictions, but reflects to a considerably extent changes in the Soviet import structure, the above average dynamism of imports of food products and other agricultural products.

The Soviet import trends do not express political but economic aspects, viz, the western interest relations connected with the exploitation of the increased Soviet purchasing power owing to the oil price rises of 1979-80. It appears that in the period of sharpening sales competition not even political pressure can deter the exporters of the countries struggling with problems of an imbalance from the market of countries disposing of an adequate import purchasing power.

The long-term determinant role of political sensitivity cannot be supported from the aspect of

the country structure of the trade of the CMEA countries either. In the radically different political atmosphere of the cold war characterizing the fifties, the détente characterizing the first half of the seventies, and then the rapid cooling down of relations after 1979 the weight of the OECD countries in the trade of the CMEA countries hardly changed, fluctuating between 25 and 34 per cent. The in the long term modest changes in the country structure of CMEA trade cannot be explained either only by external factors, let alone by foreign policy factors, but are linked to a considerable extent to the concepts of developmental strategy and concrete economic problems of the individual CMEA countries.

Another great number of those who study the East-West trade relations draw attention on the very vigorous cyclical movements, the sensitivity of East-West relations to the economic cycle, and deduce the changes in the relations in essence from the cyclical movements occurring in the OECD countries.



Table 5

Growth rates of the trade of the OECD

countries

/ % /

	1975	1976	1977	1978	1979	1980	1981
<u>Total exports</u>							
/at current prices/	3	11	14	20	23	18	-1
<u>Total imports</u>							
/at current prices/	4	13	13	16	28	22	-5
<u>Total exports</u>							
/in volume/	-1	12	4	5	7	2	-3
<u>Total imports</u>							
/in volume/	-2	11	5	5	7	1	-5

Source: UN Monthly Bulletin of Statistics,  
ECE Economic Bulletin for Europe

Trade between the two groups of countries indeed shows very vigorous fluctuations. The fluctuation of trade is in the case of East-West relations much more vigorous than in respect of the total trade of the OECD countries.

The fluctuations experienced in east-west trade cannot be explained simply by the phenomena of market anarchy, since they are much more vigorous than the fluctuations of the business cycle in market economy countries. They cannot be explained by the external economic policy dispreferences of the OECD countries either, since the import policy dispreferences towards the four industrialized Far Eastern developing countries, South Korea, Taiwan, Hong-Kong, and Singapore - representing over 60 per cent of the industrial exports of the developing countries /and surpassing considerably the industrial exports of the CMEA countries to the OECD area/ - were also vigorous and frequent in the second half of the seventies, and nevertheless their exports to the OECD countries expanded much more evenly and rapidly. Some arguments refer to the inevitable uncertainty and defencelessness of the countries which have a peripheral market position, do not deliver goods of essential importance, are not very competitive and have a low bargaining power. According to this assumption the deterioration in the market situation drives out the peripheral suppliers

first and to the greatest extent, and it is these that share latest in the benefits of a boom and expanding markets. It should not be forgotten that the Soviet Union is certainly not the supplier of goods which are in little demand or not of essential importance, is on the basis of the order of magnitude of its demand and supply not peripheral or marginal supplier, the exports primary energies have shown a rather a high degree of indifference to changes in the political atmosphere, and nevertheless the annual fluctuation in Soviet-western relations exceeds that of the other CMEA countries.

Further doubts concerning the argument of sensitivity to the business cycle are raised by the circumstance that in the period of the general economic and trade expansion of the OECD countries between 1977 and 1979, when the volume of their imports increased by 18%, the volume of exports of the CMEA countries rose by 6% only in spite of the export compulsions and modifications in concepts of developmental strategy which were already clearly noticeable. At the same time, for instance, the volume of industrial exports of the developing countries rose by 25 per cent.

The global cyclical movements of the capitalist economy, which - in the wake of the accelerated structural transformation and expansion of the tertiary sector - show diminishing fluctuations in any case, do not confirm that the capitalist business cycle should be the determinant factor in the development

of East-West <sup>a</sup>relations. It would of course be a grave mistake to doubt the role of cyclical factors in influencing the relations, but it can hardly be contested that the effect of the cyclical factors, especially in the case of the smaller CMEA countries, is asserted primarily in a given product structure. In the wake of the acceleration of restructuring in the OECD countries it has been experienced already since the end of the sixties that the economic movements in the individual economic sectors, sub-sectors and productive activities are not correlated with the general cyclical movements in the national economies but with longer term processes of a structural nature unfolding on a worldwide scale. The phenomena of sectoral lagging behind, obsolescence, unused capacities, oversupply on the market came about in a close sequence in the textile, clothing, leather, ship-building, railway rolling stock, steel, and heavy chemical industries. The general economic, industrial and import policy of the OECD countries has striven increasingly for the averting of blunting of the structural crisis phenomena occurring in an increasing number of industrial sectors. Accordingly, beside the continuing liberalization of conventional trade policy in the second half of the sixties /Tokyo round/ a new type of sectoral protectionism - often independent of the general atmosphere of trade policy - has gathered strength in most OECD countries and even on the level of the

Common Market. The various market access barriers /tariffs, non-tariff obstacles, measures restricting import competition, voluntary bilateral export restriction agreements, etc./ are concentrated on the markets of certain - although growing number of - sectors and sub-sectors.

The increasing deterioration of the positions of the exporters of the CMEA are connected most directly with the circumstance that in addition to agricultural export restrictions raised already earlier by West European agricultural protectionism, the overwhelming part of industrial exports represent products and product groups the importation of which is considered "market sensitive" by western structural policy and is restricted in the function of the crisis phenomena. Consequently, the fluctuations manifest on the CMEA export side are correlated considerably with the structural particularities of the supply, its extreme and lasting sensitivity, and not with phenomena of the general business cycle.

On the import side it is much more difficult to find direct explanation in a world market situation which is characterized by the sharpening competition of the sellers and by favourable possibilities of selection for the importers. In such a case the great fluctuations of CMEA imports can hardly be explained by external market problems. In the present world market situation the causes are of an endogenous

nature and indicate that the general foreign trade planning system of the CMEA countries, their foreign trade organization cannot yet cope with the tasks which are demanded by the realization of an even import increase involving the smallest possible domestic economic tension.

As may be seen, the problems connected with the quantitative limitations and structural particularities of the export supply of the CMEA countries play a very considerable role among the causes which have led to the halting of the earlier upswing in east-west trade. On the basis of the developments in the last half decade the experience has become more and more universal that the above average "cyclical sensitivity" of east-west trade - mainly in the smaller CMEA countries - is caused by structural factors. The unfavourable price trends, deteriorations in the terms of trade, external economic policy barriers can be considered as the price of an export-specialization along the lines of the international structural over-supply. The increase of the weight of Soviet trade, or of its import capacity respectively, can be explained indirectly also by world economic structural effects and favourable price effects, but the stimulating influence of these is limited in time.

### 3. The main trends of industrial co-operation

The increased structural sensitivity and instability of East-West economic relations, the new preponderance of the industrial division of labour in the smaller CMEA countries underlines more heavily the importance of a new type of co-operation between the two groups of countries, forms which go beyond the limits of conventional trade, and are suitable for dynamizing the relations, modernize their structure, and mutually improve their efficiency. It is understandable that since the beginning of the seventies increasing economic policy, business and scientific interest has been directed towards the forms of the development of relations which are summarily called "industrial co-operation", the new institutional solutions which create a community of interests for several years in the exchange of goods, in manufacture, in specialization, in research and development, in marketing, or even in entrepreneurial activity between the contracting parties, making their close collaboration necessary on the various levels of control and decision-making. It is not by coincidence that the Final Act of the Conference on European Security and Co-operation, signed in Helsinki in 1975, also attributed great importance to industrial co-operation from the aspects of the economic growth rate and that of international trade, the improvement of its efficiency, the intensification of relations between countries with different social and economic systems.

The positive expectations that arose in the first half of the seventies were fed by the assumption that the industrial co-operations represented instruments for the enterprises of the CMEA countries for the acceleration of the adoption of technologies, the improvement of their efficiency, keeping in mind the requirements of saving foreign exchange or the equilibrium in financing respectively, for the improvement of their supplier positions on the markets of the OECD countries. For the OECD companies, on the other hand, the main advantages of industrial co-operation are the expansion of their markets and the expansion of their markets and the possibility of employing skilled labour at lower production costs.<sup>x/</sup> The role it may play in cooperation between countries with different social-economic systems is explained by earlier analyses<sup>xx/</sup> by the circumstance that owing to the limited possibility of direct equity investment in the East-European countries as well as to the payment tensions caused by the shortage of convertible currencies, the industrial co-operations may bring about those benefits of increased efficiency which are attributed in the market economy countries usually to the growth of the transnational corporations and in the planned

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<sup>x/</sup> Analytical report on industrial co-operation among ECE countries E/ECE/844/rev.1., 1973, Geneva.

<sup>xx/</sup> UN/ECE Seminar on the Organization and Management of Co-operative International Research, ECE/SC. Tech. 9. 1976.



economy countries to the establishment of international organizations. Due to the manifoldedness of the subject no uniform interpretation of industrial cooperation exists.<sup>x/</sup> Many opinions consider any kind of economic collaboration which differs from the usual sale and purchase to be industrial co-operation. The enterprise management interests relying on state support for co-operation are linked to such an interpretation. Extremely opposed to this broad interpretation are those opinions according to which the most important criterion of co-operation is the lastingly harmonized investment, production, supply and technical development activity with a common objective, and in this spirit they distinguish from the concept of industrial cooperation the compensation and barter transactions, the long-term supply agreements not requiring the co-ordination of production, the job-work constructions which optimize the mutual tariff- and cost advantages.<sup>xx/</sup>

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x/ This is pointed out by C.H. McMillan: Forms and Dimensions of East-West Inter-firm Cooperation, See: C.T. Saunders /editor/: East-West Cooperation in Business, Springer, Wien-New-York, 1977. p.31/

xx/ N.Leise: Die Industrielle Ost-West Kooperation, Institut für Aussenhandel und Überseewirtschaft der Universität Hamburg, Hamburg, 1976.

In spite of the great political, economic policy and theoretical expectations which existed in the first half of the seventies, the effect of industrial co-operation on the trade relations remained limited. Owing to the problems connected with the statistical recording of industrial co-operation, it is necessary to treat the quantitative informations with great caution, but they are undoubtedly suitable for the indication of certain orders of magnitude and trends. It is noteworthy that the first survey, in time<sup>x/</sup> still estimated the share of co-operation deliveries in total East-West trade to 5-10 per cent. In the middle of the past decade the ECE already held only a share of 4-5 % likely<sup>xx/</sup>, and survey prepared in 1979 even as little as 3-4 per cent. The extremely broad economic policy and literary publicity of industrial co-operation sometimes obscures the fundamental fact that only a very modest share of east-west trade is trans-acted within industrial co-operations, and thus they can influence the fundamental trends of co-operation but to a modest extent. It is expedient to investigate the main characteristics of the development of industrial co-operation in the seventies taking this fact into consideration.

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x/ P. Knirsch: Ost-West-Handel zur Wirtschaftskooperation, Europa-Archiv, 2/1973.

xx/ Recent changes in Europe's trade, Economic Bulletin for Europe, UN. New York, 1975. p. 59.

In the course of the seventies the country structure of industrial co-operation showed a very forceful concentration. According to the already quoted 1979 study of the United Nations, on the East European side two fifths of the contracts were concluded by the Soviet Union, one quarter by Hungary, one sixth by Poland, one tenth by Romania, while the weight of Bulgaria, Czechoslovakia and the GDR was infinitesimal /3-4%/. On the western side the share of the FRG is outstanding /over 40%/, and the share represented by France and Austria is also important. As may be seen, a few countries account for the overwhelming part of industrial co-operations and these are far from covering the whole of East-West relations.

Table 1

Distribution of industrial co-operation agreements

according to countries      sectors /%/

Name of the sector	The seven countries together	Including					Romania	Czechoslovakia	Soviet Union
		Bulgaria	Hungary	Poland	GDR				
Chemical industry /including the pharmaceutical industry/	100,0	-	13,4	11,0	1,2		13,4	3,7	57,3
Metallurgy /including mining/	100,0	-	7,7	15,4	-		11,5	-	65,4
Manufacture of transport vehicles	100,0	3,3	39,0	16,7	3,3		20,0	3,0	28,3
Manufacture of machine-tools	100,0	-	23,1	7,7	15,4		-	15,4	38,5
Mechanical /non-electric/ machinery manufacture	100,0	8,8	17,5	24,6	3,5		5,3	3,5	36,8
Machine-tool manufacture and mechanical machinery manufacture together	100,0	7,1	18,6	21,4	5,7		4,3	5,7	37,1
Electronic industry b/	100,0	3,1	28,1	21,9	-		9,4	-	37,5
Manufacture of electrical machinery c/	100,0	4,3	69,6	4,3	-		-	4,3	17,4
Electronic industry and manufacture of electrical machinery together	100,0	3,6	49,5	14,5	-		5,5	1,8	29,1
Food industry /including beverages/ and agriculture	100,0	21,4	28,6	21,4	7,1		-	-	21,4
Light industry d/	100,0	-	34,6	26,9	-		7,7	-	30,8
Food industry, agriculture and light industry together	100,0	7,5	32,5	25,0	2,5		5,0	-	27,5
Other sectors e/	100,0	-	27,3	27,3	-		-	-	45,5
Total of co-operation contracts	100,0	3,5	24,2	17,2	2,2		8,9	2,9	41,1

Table 2

Distribution of industrial co-operation agreements  
according to sectors, by countries /%/

[illegible]

Comments and footnotes to Tables 1 and 2:

- a/ This includes the manufacture of air-craft, cars, lorries, tractors, railway engines and rolling stock,
- b/ Includes the manufacture of computers, office machinery, radio and television sets and telecommunication equipment,
- c/ Contains all electrical equipment, including electric railway engines, and household appliances,
- d/ This includes textiles, footwear, rubber, glass, furniture and consumer goods;
- e/ For instance building industry, hotels, management, tourism, etc.

Comment: Owing to rounding off, the percentual data do not always add up exactly to 100,0%.

Footnote: East-West industrial Co-operation,  
ECE/Trade/132, New York, 1979. p. 36.

The sectoral distribution also indicates very forceful concentration, although it is conspicuous that the different CMEA countries established rather different sectoral priorities in industrial co-operation. So, for instance, the chemical industry playing a leading role in co-operation connections accounted for nearly one half of contracts in Romania, more than one third in the case of the Soviet Union and Czechoslovakia. The weight of non-electric machinery manufacture /SITC 71/ was 57% in the case of the GDR, and 45% each in the case of Czechoslovakia and Bulgaria. The electrical machinery /SITC 72/ again reached one third in the case of Hungary, while its weight remained modest in the connections of the other CMEA countries.

Due to the different developmental policy priorities of the various CMEA member countries, Hungary accounted for 50% of all co-operations in the electrical industry, for two fifths of contracts connected with the manufacture of transport vehicles, for one third of agreements in the food industry, agriculture and light industry, the Soviet Union accounted for approximately two thirds of co-operations in metallurgy, and three fifths in chemical industry contracts, one third of co-operations in the engineering industry, and Poland accounted for one quarter of agreements in the food industry, agriculture and light industry. As may be seen, in some sectors the development of the relations with a single country affects the trends of East-West co-operation.

activity very substantially, and on the other hand, certain industrial sectors of some East European countries are very co-operation-sensitive. At the same time the comparison of the sectoral structure of trade and of co-operation draws attention to the circumstance that the industrial co-operations play a relatively modest role in the transformation of the export structure to the OECD countries, and serve overwhelmingly the satisfaction of the domestic market or of the demand of the regional CMEA market. The export-increasing effect of the Soviet co-operations in the chemical industry, metallurgy, the engineering industry, the food industry and light industry cannot be registered in the actual exports to the OECD countries, and the this effect of the Hungarian co-operations in the electrical industry is also modest. Thus the industrial co-operations affect altogether only 10-15% of east-west trade in industrial products /in the case of Hungary and Poland the share being higher/.

Within the manifold forms of industrial co-operation the co-production relying on specialization by the partners is most widespread /45%/, as well as agreements connected with the delivery of plants or equipment /17%/, and agreements providing for production, marketing, research and development /17%/. A relatively more modest role is played by agreements concerning the payment in



products for the transfer of licences and know-how, by tripartite co-operation, and /with the exception of Hungary/ those refering to joint offers. But these main proportions reflect in essence the Soviet, Hungarian and Polish practice which play a decisive role in industrial co-operation. It is noteworthy that in the case of Romania and Czechoslovakia more than two thirds of co-operations involve joint ventures, and in the case of the GDR over 70% is accounted for by the delivery of plants or equipment.

In the distribution of the various types of co-operation contracts among countries, the Soviet Union plays a leading role in co-production and specialization /52%/, as well as in respect of co-operations concerning the delivery of plants and equipment against resultant products /64%/. Hungary accounts for 75% of the tripartite agreements and 58 per cent of sub-contracting, Poland is in first place in respect of licence trade /63%/, and Romania in joint ventures /36%/. As may be seen, the various CMEA countries show rather marked preferences for certain types of co-operation, which reflects largely the sectoral foci of the co-operation practice. For instance, co-operation realized in the form of the transfer of licence and know-how have a share exceeding the average more than four-fold in the electrical industry, in the manufacture of transport vehicles, and more than three-fold

in the general engineering industry. At the same time, the delivery of plants and equipment occurs mostly in the chemical industry /55%/. In sub-contracting taking the form of the supply of products in the short or long-term the share of light industry exceeds the average four-fold.

As may be seen, the distribution of the industrial co-operations by country, by sector, or by type of contract shows a varied picture which is rather dispersed from the global indices. However, the common feature may be established that their relative importance is larger in sectors which belong to the frontline of international technical-structural progress. At the same time, the strong differentiation of the forms of co-operation by sectors and countries does not make it possible that any type should dispose of a substantial load-bearing capacity in connection with the development of East-West relations.

Finally, it is worthwhile to refer to the organizational background to east-west industrial co-operation. Under the combined influence of the phenomena caused by the present stage in the growth of the CMEA countries and of the development trends in the world economy the wight of large corporations has become overwhelming in East-West trade, and especially in co-operation. While the share of the

corporations may be put at approximately 30-35 per cent in trade with the developing countries, the same share is estimated to be 70-80% in east-west trade, and 80-90% in industrial co-operation. The reason is that the CMEA countries want to use industrial co-operation mainly for technical-structural modernization, and this demands primarily the import of large-scale capital-intensive technologies. It is the transnational corporations which have such technologies available, as well as capacities for extensive financing, organization and technology transfer, sales channels for assisting the exports of the CMEA countries in counter-payment, while the weight of the small and medium-size enterprises which cannot join in the large structure-transforming projects, and are not interested in the counter-purchase of compensation products "alien to the sector", is reduced /with the exception of Hungary/. It follows from this basic situation that the importance of industrial co-operation depends to a considerable extent on the global strategy of the transnational corporations or on changes of this global strategy respectively.<sup>x/</sup>

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<sup>x/</sup> Béla Kádár: Structural Change in the World Economy /in Hungaria/, Budapest, Közgazdasági és Jogi Könyvkiadó, 1979.pp.313-321.

#### 4. The factors shaping industrial co-operation

The slow-down of the dynamism and structural development of east-west trade, the sharpening of the equilibrium problems illustrate indirectly, and the absence of the expected expansion and even stagnation of the co-operation turnover directly that the objectives set for industrial co-operation at the beginning of the seventies have not been realized, or have been realized to a small extent only. Some formal characteristics of industrial co-operation undoubtedly play a role among the causes of these unfavourable developments. In spite of the preponderance of the transnational corporations, the co-operations have not reached quantitatively the "critical minimum", the industrial co-operations are /disregarding some Soviet or Polish raw material and semi-finished product transactions/ of low volume, co-operations which would induce large volumes of exports and would become an organic part of the division of labour on the international market have not come about.

The average lifespan in east-west industrial co-operations is also very short, having fluctuated around two years,<sup>x/</sup> and so they were difficult to fit into the medium-term planning system of the CMEA

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<sup>x/</sup> J. Lukasik: "Möglichkeiten der industriellen Kooperation mit Polen. Ost-West Handel 1977. Bad Ischl, pp. 119.

countries, even if only for their short duration. In addition to the "non-organic" nature, short duration of the connections, a limiting factor is represented by the export restricting western co-operation practice, which - fearing the increase of competition on the market - stipulates that the co-operating CMEA enterprise must not export to western markets, or only in small quantities. Consequently, a considerable part of the co-operation products do not go west but to the CMEA markets, which does increase exports but generally does not increase the revenue in convertible currencies. A western practice in technology transfer, which only transfer second- or third rate technology instead of the most modern one, which conserves the technical backwardness of the socialist countries, does not increase their competitiveness, and consequently limits their interestedness, has a similar affect. The insufficiency of mutual interestedness in the development of industrial co-operation indicates that the forms of co-operation chose so far, or their practical exploitation, have corresponded only to a small extent to the requirements and to the potentialities.

However, the formal characteristics point only at symptoms, and thus it is worthwhile to have a look also at the deeper causes which contribute to the development of industrial co-operation. In the second

half of the seventies, the phenomena of the shortage economy became stronger in several CMEA countries, and at the same time - though to an insufficient extent - the elbow-room of the enterprises increased compared to previous years, exactly in order to reduce in perspective the phenomena of the shortage economy. Some western experts<sup>x/</sup> drew attention already more than half a decade ago to the circumstance that on the CMEA side the state appeared as the carrier of micro-economic interests in East-West industrial co-operation, while the enterprise may even be counter-interested. Making use of their somewhat increased elbow-room, the enterprises of the CMEA countries endeavour - by virtue of their own interests - to conclude co-operation agreements which enable them to acquire the missing products and technologies from western sources, and to sell the manufactured products on the domestic or the CMEA markets which have a great pulling effect. On the other hand, the larger the share of domestic or CMEA inputs - which are difficult to acquire - is in the case of co-operation agreements, the more worries the export to the OECD markets causes, and the greater the counter-interestedness of the socialist enterprise becomes. Thus the macro-economic objectives connected with the increase of exports to

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F. Levčík - Jan Stakovsky: Industrielle Kooperation zwischen Ost und West, Springer Verlag, Wien-New York, 1977. p. 215.

he OECD countries and the acceleration of technical-structural progress clash on a wider scale than earlier with the movements of the enterprises which "have become sloppy" in the environment of the shortage economy and can now assert their own interests to a greater extent than earlier. Of course, the consequences of the movements caused by the organizational interests of the enterprise are blunted by individual interests within the organization, including the higher prestige accompanying the export for hard currencies, opportunities for learning, gathering experience, seeing the world, etc. but it would be a mistake to overestimate the extent of these as against interests created by the overall management system.

In the eighties, several CMEA countries again tried to counteract the barriers to co-operation caused also by the broadening of the enterprises' elbow-room, by increasing the number of individual central interventions and administrative measures, which - besides the short-term effects on the equilibrium - again influenced unfavourably the transparency of the economic policy environment. Although the overheatedness of the domestic economy has been reduced to a certain extent, the bringing about of an oversupply on the domestic market or even of an equilibrium only is of course a time-consuming task even in case of an unequivocal and

consistent economic policy. On the basis of these interrelations we may claim that the characteristics of the system of control, market structure and domestic equilibrium of the CMEA countries play an incontestable role in the development of east-west industrial co-operation, and the appearance of new driving forces in east-west industrial co-operation is also linked to the modification of these.

The external conditions of industrial co-operation have been modified to a much greater extent and with much more consequences than the domestic conditions of the evolution of the CMEA countries. In respect of the political sphere we have already indicated that the unfavourable turn in the atmosphere of détente after 1975 and then after 1979 was reflected but little in the development of trade relations. There exists however such a seldom mentioned province of "sensitivity to politics", which affects in essence the more industrialized and industrial exporter small CMEA countries, but this is not connected with factors of a strategic nature. The growth performance of the small socialist countries, the technical-structural development, terms of trade, etc. depend to a large extent on the introduction of more advanced forms of industrial co-operation with the western countries and firms, the increase of their more advanced industrial exports to the OECD countries. This process was made more difficult in the seventies from the side of the domestic politics



of the OECD countries by the economic policy of the left-centre or Social Democratic governments which are more committed to the trade unions and put more emphasis on the job protection. In more uncertain internal power relations and a more incertain world policy atmosphere the capitalist entrepreneurs show also less inclination towards the development of the more advanced forms of closer inter-firm co-operation which involve above the average risks and usually pay for themselves only in the longer perspective and in the case of lasting stability.

The preconditions of co operation have deteriorated in East-West economic relations diversly in several respects. In the Western European countries counting for co-operation partners having a decisive weight, the rate of economic growth and the expansion of demand slowed down lastingly, and large-scale unemployment also limits the transactions which rely on the comparative wages advantages of the CMEA countries. The price of raw materials and primary energies increased substantially in the CMEA too, coming nearer to the world market level, and thus an OECD moving out of energy-intensive production activities would result only in moderate profitability, and in an increasing number of cases it would even

clash against constraints of supply. It was in the seventies that the industrial supply from the developing countries and the South European countries unfolded in the OECD markets. This supply coincides to a large extent with the industrial exports of the CMEA countries, but enjoys considerable comparative cost advantages /cheaper local raw material- and energy basis, manpower, lower specific tax burden/ and trade policy preferences. The processes mentioned, separately and by their combined effect, limited the opportunities for expanding the exports of the CMEA countries, and orientated the industrial co-operation activity of the OECD countries from the import side to a larger extent towards the newly industrializing countries. Favourable developments in the export opportunities, and then the indebtedness of the CMEA countries, especially the increased debt-servicing burdens after 1979, limited also the import capacities of the CMEA countries for the eighties, and thus reduced the relative attraction of their markets. For the OECD exporters the presumed lower rate of import expansion by several CMEA countries in the medium term is also a co-operation-restricting factor.

However, in the slow-down of east-west industrial co-operation other processes too make themselves felt, which go beyond the circle of the participating

countries and represent world economic processes which modify the conditions of international industrial-technical co-operation. In the quarter century following on World War II, there were still 15-20 countries which were able to make use of and develop further the technical-scientific knowledge which had been accumulated during the war and then in the years of the arms race, the number of countries and companies capable of supplying modern technologies increased, and from the aspect of the buyers the international conditions for acquiring modern technologies improved. In the seventies many trends began to unfold. Owing to the powerful increase of the specific research and development costs, the rise of the "critical minimum" of investment necessary for the development of modern technologies, to the increased risks of technical development in the uncertain world economic situation, the pulling sectors of technical-structural progress became increasingly concentrated on the three leading OECD countries, the USA, Japan and the FRG. Their share of the market of technology-intensive products is much higher than of world trade, and an oligopolistic market structure has come about in an increasing number of cases. Parallel to this, the positions of the West European small countries or medium powers, for instance, have become weaker on the market of international technology supply. Parallel to the concentration of the supply on the market of technologies, the zone of technical modernization has become

wider, numerous oil-producing, South-East Asian and Latin-American countries having started technical development and re-structuring programmes at a forced pace. In the wake of the market trends strengthening the concentration of supply also from the side of demand, the three leading powers and some large corporations, often the USA alone, increasingly dictate the terms at which modern technologies are sold.

Owing to the increased risks, specific costs, and order of magnitude of investments involved in research and development, the movements of technologies are increasingly intertwined with movements of capital. This intertwining has also strengthened the bargaining power of exporters of capital and technology having become stronger all over the world since the mid-seventies.

At the end of the sixties and at the beginning of the seventies, international capital afraid of nationalization and various forms of expropriation, in a market environment which was less favourable for it, showed relatively greater understanding and greater willingness for agreement in respect of various measures regulating the ownership of capital and the transfer of technology. Due to this experience a large number of theoretical and practical experts were of the opinion that in the intensification of economic co-operation the establishment of joint ventures, the interlocking of ownership was not

an essential factor. For instance, D. Rockefeller, President of the Chase Manhattan Bank declared<sup>x/</sup> ... "the capitalist is not necessarily interested in sharing in ownership if he can share in the profit". Wilczynski<sup>xx/</sup>, Levcik-Stankovsky<sup>xxx/</sup>, as well as Smeljow<sup>xxxx/</sup> also emphasized the wide range of possibilities suitable for avoiding the "delicate" problem of joint ownership.

In the second half of the seventies it could be experienced already in a widening range that the leading large corporations were less and less inclined to transfer leading technology in the form of simple sale and purchase or licensing, since these involved a smaller volume of profit, the loss of the possibility of control over the utilization of the already sold technology, and in some cases the appearance of competitors. Relying on their strengthening bargaining power, the exporters of technology are increasingly ready to transfer the most advanced technology only in closer forms involving ownership, in the framework of co-operation involving equity participation, since this form ensures the larger volume of profit linked to the volume of manufacture, and also opportunities for control over the utilization of the new technology.<sup>xxxxx/</sup>

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- x/ US News and World Report, August 13, 1973  
xx/ Joint East-West Ventures and Rights of Ownership, Varleton University, Ottawa, 1975.pp.14-17.  
xxx/ Op. cit. p. 106  
xxxx/ Promishlennoie is nauchno-tiehnicheskoie sotrudnichestvo, in: Voprosi Ekonomiki, 6/1977. p.85.  
xxxxx/ Béla Kádár, op. cit. pp. 344-346.

The phenomenon mentioned is illustrated by the fact that in the case of the USA, which plays a leading role in international technology trade, the trade in high technologies is transacted today already overwhelmingly within the organizational system of the corporations, between the principal and subsidiary companies. This does not only mean that the possibility of acquiring technologies has become more difficult, but the countries newly becoming industrial exporters are able to export technology-intensive products also only within the economic organizational system of the transnational corporation empires. Of course, in the case of light industry or electrical industry end products, mass consumption goods manufactured by the engineering industries, the new exporters are also capable of acquiring new markets on the basis of price advantages. However, the dynamic exports of considerable volumes of productive machinery and parts, pharmaceuticals, of goods usually sold on markets which have an oligopolistic structure, are not at all characteristic of the new industrial exporters outside the organizational scope of transnational corporations.

It can be explained by these processes that the majority of the medium-developed or developing countries which join more forcefully in the international division of labour liberalized in the seventies the regulation of importing capital, while the countries lagging in liberalization lag increasingly in technical development and in the exporting of industrial products.

In the seventies several CMEA countries /Romania, Hungary, Poland/ also updated their <sup>9</sup> legislation and the system of regulation concerning foreign capital. In spite of the simplification, the inflow of foreign capital mediating the leading technologies has remained insignificant, since the investment decisions of international capital are not motivated by the internal dynamic of the system of capital regulation of the various countries but by worldwide conditions and opportunities. In the system of qualification of capital investment developed in the basis of the restrictions concerning foreign capital ownership and the transfer of profit, the extent of price control by the authorities, the degree of indebtedness toward foreign countries, the wages costs and productivity of local manpower, the imbeddedness in the international division of labour, etc. the appraisal of the CMEA countries is not favourable by international comparison.

As a resultant of the readjustment occurring in international economic and interest relations, and of various factors, the elements of creating hierarchization appear in the forms of international co-operation. An increasing proportion of capital, products, knowledge, services mediating the most advanced technologies is concentrated on inter-firm relations involving a combination of ownership, while the industrial co-operations representing a looser tie are increasingly limited to the market of products which are structurally

falling behind, technically belong to the declining part of the life curve, and show a low price dynamism. Consequently, the trends which evolved in the seventies and appeared to be lasting, relatively depreciate the importance of industrial co-operation, and divert the flow of modern technologies and products. The diverting effect manifests itself organizationally in the stagnation of industrial co-operation, and geographically in the loss of importance of the East-West industrial division of labour, respectively is reflected in the above average expansion of industrial co-operation between the OECD countries and the industrializing developing countries.



Summing-up comments

The loss of ground in the world economy by East-West economic co-operation and especially by industrial co-operation is a process which has reflected objective economic interconnections for several years already. The reversal of this process of losing ground is fundamental from the aspect of the maintenance of the relative stability of the system of international relations and especially the improvement of the political and economic atmosphere of the European Continent, and the safeguarding of its importance. It is already clearly visible today that the narrowing down of East-West relations considerably reduces the diplomatic and external economic elbow-room of the OECD countries /FRG, France/ which used to make good use of their intensive co-operation with the CMEA countries in the building up of their international positions, influences unfavourably the conditions of the social re-production processes of some CMEA countries, especially of the small CMEA countries, and in its combined effect weakens the economic interest related to the sustenance of the international atmosphere of détente.

Although the weakening of trade relations between the two groups of countries was not brought about by factors of a political nature, it can hardly be contested that the reversal of the unfavourable trends which took shape in recent years demands economic and mainly political efforts that go beyond the sphere of trade and are inseparable from the elimination of the present peaks of

political tension, the creation of a political atmosphere of mutual confidence which is necessary for more intensive and up-to-date economic co-operation.

On the basis of the present world economic trends and of the economic situation existing in the CMEA and in the OECD countries respectively, it would be an illusion to count with the rapid disappearance of the objective barriers to the development of relations in the two groups of countries. The present problems are the stored-up consequences of processes of a various nature, and their cure also demands many-sided and long-term strategic therapies of a synergic effect.

Opposed to the assumptions which existed a decade ago, a host of experience shows that in the new stage of international economic development industrial co-operation cannot carry too great a burden in the expansion of the markets of the OECD countries, in the technical-structural modernization of the CMEA countries, in the solution of their problems of equilibrium, in the elimination of tensions in co-operation between countries with different institutional systems. The deterioration of the conditions of industrial co-operation, changes in their motivational background do not of course mean their atrophy in the future. Adjustment in form, conception and implementation to the present requirements of the world economy may set free considerable driving forces for the intensification of east-west co-operation. It may play an especially great role in the moving out of productive-

-technological processes which can no longer be profitably operated in the industrially most advanced OECD countries, which fall behind continuously, but still satisfy a certain domestic demand, to the industrially less mature countries, in the trade of engineering mass products requiring greater stability and co-operation than the conventional sale and purchase transactions can provide.

It must be counted with that the flow of the most advanced technologies in the relationship between the OECD countries and the CMEA countries is circumscribed by integration into the international organization of enterprises, the combination of enterprises, the organizational expansion of firms led by the CMEA countries abroad, by the importing of equity capital from the OECD countries. In the eighties the requirements of co-operation in industrial development coincide with those of the sphere of financing. Owing to the large-scale indebtedness of several CMEA countries, different from the practice of the seventies, the additional external financial resources which are needed not only for the technical-structural transformation but also for the acceleration of the entire growth process, can no longer be acquired in the form of loan capital. In the given situation one of the key question of the further development of east-west co-operation is represented by the creation of the economic-political conditions necessary for the adoption of the socialist enterprise organizations in the West and the efficient adoption of the OECD enterprises in the East.

In the CMEA countries it is the modification of the social-economic targets on the basis of the world economic challenge, the choice and implementation of the projects of complex development and regroupment of the resources enabling the expansion of export capacities, the further development of the systems of control taking incentives and competitive mechanisms into consideration that may assist to the largest extent in the intensification of east-west co-operation.

In addition to the precesses of rearrangement in the world economy and the phenomena of recession, the trade policy discriminations and dispreferences practised in the OECD countries also hinder the CMEA countries to a large extent in the exploitation of their genuine and potential comparative advantages, in the development of the developmental strategies needed for this purpose. The western exports of the CMEA countries, especially of the small CMEA countries having become marginal, the trade policy restrictions or dispreferences of the OECD countries referring to market disruption are economically irrelevant. The elimination of these restrictions would by themselves broaden the elbow-room for east-west co-operation. The guarantee and stimulation by the state of western capital exports to the CMEA countries which join intensively in the international division of labour would represent a long-term positive stimulus and accelerate their fitting into the world economy.

In the longer run, it is inevitable for the purpose of stimulating and stabilizing world economic growth to develop further the institutional system of international co-operation, stop protectionism and create an international economic policy /not only tariff- and trade policy/ forum or organization which would intensify in a planned way liberalization relying on mutual benefit. In the beginning such a forum would serve for the regular exchange of information about the perspective developmental ideas, restructuring investments, technical-developmental concepts, experiences of the individual countries. Later, on a higher level of the exchange of information, the national governments may consult and then - on the basis of reconciling their interests - may enter into obligations concerning the subsidies provided for the restructuring of the various sectors and enterprises, or may refrain from new supportive measures which hinder the more efficient distribution of economic resources by international comparison. In a later phase still they may reconcile the general economic development and structural policy plans of the individual nation states and their trade projections. In this phase it may become possible for the industrially developed countries to abolish any kind of support for the no longer competitive lagging behind sectors, and the transfer of the lagging behind areas of activity to the countries disposing

of comparative advantages. East-West trade, especially trade within Europe may undertake a pioneering role in the creation of such a comprehensive macro-economic co-operation serving dynamization and rationalization in the participating countries as well as in the system of international relations.

8

ECONOMIC COOPERATION BETWEEN EUROPEAN CMEA COUNTRIES  
AND DEVELOPING AFRICA

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Economic Relations of CMEA Countries<sup>+</sup> with Africa

1. Africa's struggle for a transformation of international economic relations, and co-operation with the socialist countries

Africa's struggle for a restructuring of international economic relations, for the development of interregional relations aims - as in the case of the other developing countries - at eliminating its considerable underdevelopment, at diversifying its distorted and unilateral economic structure, at reducing, counterbalancing its one-sided but multifaceted economic and political dependence on the developed capitalist countries and multinational companies, and at exploiting its wealth of natural resources in the interest of national development. The ultimate goal, beside political independence having already been attained by most African countries, is the attainment of economic independence, the realization of an autonomous and balanced economic development and growth, a satisfaction of the basic needs of the Africans numbering some 470 million /1980/.

Besides the African countries having the intention to rely both in their struggle for a transformation of external economic relations and in the realization of their fundamental economic and social goals mainly on the national and all-African resources, they reckon in a considerable measure on political and economic support of the socialist countries, on deep-

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<sup>+</sup> By CMEA countries primarily the Soviet Union and the European CMEA countries /Bulgaria, Czechoslovakia, the GDR, Hungary, Poland, Romania/ are understood, since the extra-European CMEA countries /Vietnam, Mongolia and Cuba/ have just slight or no economic relations with Africa.

ening with them interregional co-operation. So much the more as co-operation with the socialist countries - which is called new-type /or socialist/ one in economic literature -, following from its basic principles, forms and impacts, promotes - even if only to a slight extent - the achievement of all those goals for which the African countries conduct a struggle.

The co-operation realized with the socialist countries, - as distinct from and as against the colonialist or neocolonialist-type division of labour "established" with the developed capitalist countries - is aiming at a "decolonization" of the African countries' internal economies on the one hand, and of their external economic relations on the other: it promotes the internal economic development of these countries, their economic and social integration, a transformation of their economic structure, and - partly by means of these - it avoids in external economic relations the inequalities, asymmetries that are characteristic of the international division of labour realized with the capitalist countries, and forces the capitalist countries to improve the conditions of their relations with the African countries.

## 2. Mutual significance of economic relations - in the light of commodity turnover

In evaluating, analyzing economic relations between the socialist and the African countries, it is necessary with a view to objectivity to point out the mutual significance, the importance of relations. A usual method of this is the presentation of the role played by foreign trade, by bilateral commodity turnover in the external economic relations of the two groups of countries, so much the more as today still foreign trade is the most important form of co-operation. On the other hand, it must be taken into consideration that the role played in each other's foreign trade may only partly reflect the sig-

nificance of economic relations, since beyond mutual commodity deliveries economic relations also cover other forms of economic co-operation, often ones having implications of greater significance than foreign trade; identical foreign trade shares may imply different significance, depending on the commodity structure of deliveries, on the terms of exchange.

a/ Socialist exports and the African market

Examining the socialist countries' exports, their ex-ports to the developing countries, and within them those going to Africa, it can be stated that while between 1960-1981 the socialist countries' total exports - in terms of value and calculated at current prices - increased by 10.4 times, exports to the developing countries grew by 22.2 times, consequently the developing countries' weight within the socialist countries' total exports rose from 6.5 per cent in 1960 to 13.8 per cent in 1981. An even more dynamic growth than that of socialist exports to the developing countries was marked by the exports going to Africa /27.2 times increase in terms of value between 1960 and 1981/, as a result of which a considerable growth occurred in Africa's share both within socialist exports to the developing countries and within the overall exports of the socialist countries: while in 1960 29 per cent of socialist exports to the developing countries went to Africa, in 1981 the corresponding share was already close to 36 per cent, i.e. in 1981 5.0 per cent of all socialist exports went to Africa, as against 1.9 per cent in 1960.

The African countries, consequently, represent a very dynamically developing market, but a fairly modest outlet, for the commodities of the socialist countries, which is to be attributed partly to a later attainment of political independence by the African countries, to stronger "ties" with the ex-mother countries, with the capitalist economic and financial organi-

zations, with the monopolies and multinational companies, to an instability of economic and political systems, to a small size and narrow internal market of the majority of African countries, to transport difficulties, to a lack of market knowledge on the part of the socialist countries, to an insufficiency of adjustment to the special climatic conditions, and partly to competition becoming keener also on the market of African countries, to an unsatisfactory level of the competitiveness of the socialist countries' commodities.

And what do the socialist countries' supplies mean for the African countries? What weight is accounted for by socialist exports in meeting the import demands of these countries, which are the commodity groups within socialist exports that are of particular significance?

As is evident from the figures of the tables included, the socialist countries - despite a dynamic growth of the volume and value of their exports to Africa - satisfy just a very slight share of the import needs of the African developing countries: while in the early 70s the socialist countries satisfied some 6-8 per cent of all African imports, by the end of the 70s this share declined to around 5.0 per cent, that is to say, in the last decade the African countries increased their procurements more dynamically from other countries, primarily from the developed capitalist countries dominating some 80-85 per cent of their trade relations, with an increasing role being played in their purchases by the other developing countries too. Consequently, the socialist countries continue to account for a modest weight within the African countries' imports, it is difficult for them to counterbalance the dominance of the developed capitalist countries.

Despite the fact that the greater part of socialist exports /35-40 per cent/ is accounted for by machines and transport

Table 1

The socialist countries' exports to Africa by commodity groups

/million US \$, fob/

	1970	1973	1974	1975	1976	1977	1978	1979	1980
Food, beverages and tobacco /SITC 0+1/	105	105	300	280	275	364	431	491	...
Crude materials /SITC 2+4/	58	110	185	145	125	214	193	209	...
Mineral fuels /SITC 3/	69	87	220	180	175	204	146	210	...
Chemicals /SITC 5/	35	47	99	110	115	165	194	209	...
Machinery, transport equipment /SITC 7/	425	560	590	670	660	884	1134	1228	...
Other manufactured goods /SITC 6+8/	195	265	475	450	435	563	536	722	...
Total exports /SITC 0-9/	1000	1280	1910	1960	1890	2508	2913	3234	4098

/Source: Calculation based on UN Yearbook of International Trade Statistics 1980/

Table 2

Commodity structure of the socialist countries' exports to Africa /%/

	1970	1973	1974	1975	1976	1977	1978	1979
Food, bev., tob.	10.5	8.2	15.7	14.3	14.6	14.5	14.8	15.2
Crude materials	5.8	8.5	9.6	7.3	6.6	8.5	6.6	6.5
Mineral fuels	6.9	8.7	11.5	9.1	9.2	8.1	5.0	6.5
Chemicals	3.5	3.6	5.1	5.6	6.0	6.5	6.6	6.5
Machinery, transport equipment	42.5	43.7	30.8	34.1	34.9	35.2	38.9	38.0
Other manufactured goods	19.5	20.7	24.8	22.9	23.0	22.4	18.4	22.3
Other	11.3	8.6	2.5	6.7	5.7	4.8	9.7	5.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

/Source: Calculation based on UN Yearbook of International Trade Statistics 1980/

Table 3

The weight of socialist countries' exports within African imports

	<u>/ % /</u>									
	1970	1973	1974	1975	1976	1977	1978	1979	1980	
Food, bev., tob.	6.6	3.6	6.1	5.0	5.2	5.6	5.8	5.8	...	
Crude materials	11.4	12.6	11.7	9.8	8.4	10.8	9.1	7.7	...	
Mineral fuels	9.9	9.4	7.8	5.9	5.4	5.6	3.8	3.7	...	
Chemicals	3.6	3.0	3.9	3.8	4.2	4.8	5.0	4.4	...	
Machinery, trans- port equipment	9.4	6.4	5.0	3.9	3.4	3.8	4.5	4.9	...	
Other manufac- tured goods	5.8	5.3	5.9	4.4	4.4	4.5	3.8	4.5	...	
Total imports	8.4	6.3	6.0	4.8	4.4	4.8	5.1	5.1	4.8	

/Source: Calculation on the basis of UN Yearbook of International Trade Statistics 1980/

equipment /agricultural machinery, mining and construction equipment, tractors, aeroplanes, machine-tools etc./ and to an extent of 20-25 per cent by manufactured goods, even in the case of these products the socialist countries can meet just a very modest and declining share /4-5 per cent/ of African import demands. It may be anticipated also for the future that the greater part of socialist deliveries will be made up of capital goods, machinery, complete equipment of fundamental significance for the economic development of the African developing countries, besides these becoming outlets for certain foodstuffs, food industry products too. On the other hand it is expected that the manufactured consumer articles exports going there will decline in respect of both dynamism and share, not least as a result of the African countries' endeavours at an import substituting industrialization.

b/ Socialist imports and the African source of procurement

Examining the dynamism of the CMEA countries' imports, of their imports from the developing countries, and within them of those coming from Africa it can be stated that while between 1960-1981 the socialist countries' total imports increased by 10.1 times, their imports from the developing countries grew by 14.9 times, consequently the developing countries' weight within the total imports of the socialist countries rose from 7.4 per cent in 1960 to 10.8 per cent in 1981. And since of total CMEA exports currently a share of 13.8 per cent goes to the developing world, a 4 billion ruble surplus turns out to be in the trade balance to the benefit of the socialist countries.

Socialist imports coming from Africa grew less dynamically between 1960 and 1981 than the total imports of the CMEA countries and than those from the developing countries, consequently the weight of Africa - which for that matter had not been of particular significance - continued to decline in the course of the 60s and 70s, and currently the CMEA countries cover just 2.0 per cent of their imports from Africa, although of their exports 5.0 per cent goes to that continent. The socialist countries' trade balance with Africa showed in 1981 a surplus of some 3.7 billion rubles, i.e. the ratio of import/export cover amounted to some 250 per cent in the case of the CMEA countries' African trade. It is probable anyway that in the future there will be a considerable decline in the extent of the surplus, in case the socialist countries - and within them primarily the East-European socialist countries - will increase their fuel and raw material purchases from the African countries, and the industrial division of labour will show deepening between the socialist and the African countries.



Table 4

The socialist countries' imports from Africa by commodity groups

/million US \$, fob/

	1970	1973	1974	1975	1976	1977	1978	1979	1980
Food, bev., tob.	265	385	520	630	650	621	635	710	...
Crude materials	330	350	700	760	400	516	319	438	...
Mineral fuels	31	200	115	230	335	175	155	632	...
Chemicals	21	26	39	66	42	45	47	37	...
Machinery, transport equipment	1	4	3	9	2	0	0	0	...
Other manufactured goods	135	170	255	345	235	251	264	199	...
Total imports	783	1135	1632	2040	1754	1608	1415	2016	3114

/Source: Calculation on the basis of UN Yearbook of International Trade Statistics 1977 and 1980/

Table 5

Commodity structure of socialist countries' imports from Africa

/%/

	1970	1973	1974	1975	1976	1977	1978	1979
Food, bev., tob.	33.8	33.9	31.9	30.9	37.1	38.6	44.9	35.2
Crude materials	42.1	30.8	42.9	37.3	22.8	32.1	22.5	21.7
Mineral fuels	4.0	17.6	7.0	11.3	19.1	10.9	11.0	31.3
Chemicals	2.7	2.3	2.4	3.2	2.4	2.8	3.3	1.8
Machinery, transport equipment	0.1	0.4	0.2	0.4	0.1	0.0	0.0	0.0
Other manufactured goods	17.2	15.0	15.6	16.9	13.4	15.6	18.7	9.9
Total imports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

/Source: Calculation on the basis of figures in Table 4/

As these tables show, the most important commodity groups of the socialist countries' imports from Africa are made up of

tropical agricultural produces, foods, fruits and beverages /cocoa, coffee, tea, spices, tropical fruits/ to an extent of about 40 per cent of imports, and of crude materials /bauxite, phosphorus, raw phosphate, nonferrous metal ores, wood, hide, cotton, wool/ and mineral fuels /crude oil, gas/ to an extent of 20-30 per cent of imports. The African countries' exports to the socialist countries - similarly to the commodity structure of all African exports - are characterized by an 80 per cent crude products dominance; it is on the other hand a favourable tendency that a considerable increase occurred in the socialist countries' imports of manufactured goods, consumer items from the African countries too. Among the manufactured goods worthy of mention are various textile items, leather, shoe and clothing industry manufactures, and products of iron and non-ferrous metallurgy.

The significance of the procurement from Africa of tropical agricultural produces and of crude and basic materials is shown by the fact that while just 2.0 per cent of all socialist imports comes from the African countries, some 6 per cent of CMEA imports of tropical agricultural produces, about 10 per cent of crude and basic materials, and 4 per cent of mineral fuels are of African origin, i.e. in respect of these items Africa represents a relatively important source of procurement for the socialist countries.

The above products are not only significant from the viewpoint of the socialist countries' procurements, but also the CMEA countries represent for African exports an outlet of greater significance than the average, in comparison to total exports to be sure. For example, while in 1979 some 3.0 per cent of all African exports went to the socialist countries, the CMEA accounted for 7.4 per cent of the exports of agricultural produces and mineral raw materials and for 7.9 per cent of those of foods and beverages.

Taking into account that with regard to certain crude materials Africa is in the group of leaders as to world production and world reserves<sup>+</sup>, that the socialist countries also participate in the development of the extractive industry of the African developing countries, and that in view of that they want in the future to ensure part of their crude material needs from external /including African/ sources, it is probable that within the socialist countries' imports from Africa crude products, and their processed variants, will continue to play a leading role, and it is also imaginable that Africa's weight in respect of the imports of these products will even exceed the current - relatively high - share. In the future the African crude material base may be an area of mutual economic interest forming a basis for the economic co-operation of the two groups of countries, but for taking advantage of this, a greater activity, flexibility and an increase in the competitiveness of the socialist countries will be required. On the other hand, considering the future, the African countries - besides wanting to ensure solid markets for their crude products - will also search primarily for such expanding outlets /which are readily available for them in the socialist countries/ where they can sell the products of their rising industries.

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<sup>+</sup> Africa is the place of occurrence for 96 % of the world's diamond reserves, 90 % of the chromium reserve, 50 % of the cobalt reserve, 50 % of the phosphate reserve, 55 % of the manganese reserve, 40 % of the bauxite reserve, 30 % of the thorium and uranium reserves, and 20 % of the copper reserve, and this continent accounts for 72 % of the world's cobalt production, 67 % of the gold production, 36 % of the manganese production, 35 % of the chromium production, 28 % of the phosphate production, 22 % of the copper production, 10 % of the iron production, and 7 % of the bauxite production.

A definitely one-sided picture would be given of the economic relations of the socialist and the African countries, if economic co-operation were evaluated just on the basis of foreign trade figures, and no account were taken of the distinctive marks existing between co-operation with the socialist countries and economic relations realized with other groups of countries, and of the fact that economic co-operation covers much wider areas than foreign trade and that in the co-operation of the two groups of countries such important forms of co-operation also appear as are at least of the same significance as mutual commodity deliveries.

### 3. Extra-foreign trade forms of economic co-operation

The economic co-operation being realized by the socialist countries with the developing - including the African - countries differs mainly in the basic principles of the establishment of economic relations, in the indirect and direct impacts of co-operation and, to a certain extent, in the forms of co-operation from the relations established with the capitalist countries and playing a dominant role in the majority of cases. It is often these qualitative distinctive marks that permit a strengthening of the impact of co-operation slight in quantitative terms, a quantitative expansion of relations.

The basic principles determining co-operation between the two groups of countries - observance of sovereignty, equality, mutual advantages, freedom from exploitation and dependence, full equality of rights, non-intervention in each other's internal affairs - are in evidence in all forms of co-operation being realized with the developing countries.

#### a/ Long-term agreements

Among the forms of co-operation most fundamental is foreign trade, commodity turnover already presented and analyzed

in detail, which - despite its slight volume and weight - is of particular significance for the partners participating in turnover, because it is generally handled within the framework of long-term, but at least yearly, trade agreements and related agreements on payments and economic co-operation, and introduces thus certain stability, systematic character, safety and continuance in the system of relations. And this - with a view to both market assurance and an assurance of the sources of procurement - is the interest of both parties, and often it may be a form counterbalancing political uncertainty and bringing to expression mutual economic interest. Currently the socialist countries have long-term agreements and arrangements with 34 African countries.

In the co-operation on raw materials between the CMEA countries and the African countries an ever more frequent phenomenon is the conclusion of long-term supply contracts in force for 10, 20 or 30 years, where the concrete form of relation between the partners may range from usual selling and buying through barter-type mutual commodity deliveries to co-operation covering also credit and technical co-operation between the partners. In 1978 Poland concluded an agreement with the Moroccan firm Office Cherifien des Phosphates, in accordance with which Poland receives from Morocco an annual 500 thousand tons of phosphate in exchange for sulfuric acid factory equipment. In accordance with a Polish-Tunisian phosphate contract Poland receives between 1977 and 1985 an annual 300 thousand tons of phosphate as an offset to complete factory equipment. In 1978 Poland concluded a long-term oil supply contract with Libya, within the framework of which Libya pays, as from 1979, by a definite amount of oil for the Polish party's building industry services and participation in power station construction. Likewise oil supply contracts were concluded with Libya

by Hungary and Czechoslovakia, and the Soviet Union entered into a bauxite supply contract with Guinea and a 30-year phosphate supply contract with Morocco.

b/ Delivery of complex equipment and facilities

A distinctive trait, beyond the stability and systematic character already mentioned, of the socialist countries' commodity turnover with the developing - and among them the African - countries is the delivery of turnkey plants, complete equipment<sup>+</sup>, and the participation in the construction of various facilities of significance for the national economy.

Though this form of co-operation depends to a greater extent on the shaping of political relations than simple commodity deliveries and often it also serves demonstrative purposes, but considering its effect - probably its effect exercised on the developing countries' economy - it is superior to the direct and indirect impact of commodity deliveries. Complex deliveries, the setting up of facilities of national economic significance permit in the first place the establishment and development of complete vertical lines of production of individual industries, of a research and development base, of agriculture and of infrastructure in the developing countries, they increase the productive capacity and the possibility of accumulation, promote indirectly a modernization of the production pattern, a decrease in its one-sidedness, possibly the establishment of export capacities, an easing of the employment problem, and if deliveries are complete with a transfer of know-how and technology, and the education and training of the local staff of specialists, they even contribute to lessening technological dependence and to lightening the concern about the shortage of specialists.

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<sup>+</sup> In 1978 some 53 per cent of the Soviet Union's machinery and equipment exports to the developing countries was made up of complete equipment.

The greatest significance of this form of co-operation lies in its complex character, that is to say in that

- it includes for a given economic facility the designing, the erection, the putting in service, the supply of machinery and equipment, occasionally the sending of specialists, the transfer of technology, technical and scientific assistance, the training of local workforce, possibly the granting of credit, and buyback of part of the goods produced;

- it contributes to reducing the unilateral dependence on the developed capitalist countries' machinery and equipment supplies, technology transfer, and credit granting;

- it promotes the development of the given country's national economy and means of production, a realization of its economic integration, an increase in its export capacities, in many cases a reduction of its dependence on imports, an active and mutually advantageous involvement in the international division of labour, the development of interregional relations;

- and it contributes to a long-term development of solid, systematic, mutually advantageous economic relations to be realized with the socialist countries, to creating mutual economic interests.

Until the beginning of 1981 the socialist countries participated in the establishment of 4.918 facilities<sup>+</sup> in the developing countries, of which already 3.300 are in service<sup>++</sup> and in the possession of these countries, with total capacities of an annual 30 million tons of steel, 67 million tons of oil, 50 million tons of oil products, 23 million kw of electric power etc. Some 90 per cent of the facilities established by the so-

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<sup>+</sup> Of which 2752 in Asia, 1964 in Africa, and 202 in Latin America.

<sup>++</sup> 1647 in Asia, 1507 in Africa, and 140 in Latin America.

cialist countries are to be found in key branches of the productive sphere; 70 per cent came into being in the field of industry, processing and extractive industry, energy production and agriculture, while 30 per cent were realized in the domain of infrastructure, education, health and culture. The CMEA countries called into being in the developing countries 193 machine factories and metal-working plants, 161 chemical industry plants, 103 oil producing and processing plants, 1969 energy supply facilities, 229 mines, extractive industry plants, 96 iron and nonferrous metal smelting works, 663 food industry plants, 239 light industry facilities, 172 building industry factories, 335 transport, traffic and telecommunication networks, 344 agricultural farms, furthermore 641 facilities in the field of public health and education.

Of the facilities the CMEA countries called into being in the developing countries 1964 are to be found on the continent of Africa /with 1507 already in service/ and four fifths of them are in the possession of the African countries with socialist orientation. The distribution by branch of the facilities erected on the African continent is similar to the picture characteristic of the whole of the developing countries: the greater part /three fourths/ of the facilities are in the productive sector - primarily in industry, in the extractive industry, in energy production and in agriculture -, but in view of the considerable underdevelopment of the continent's infrastructure, of the backwardness of the transport and communication network, the socialist countries laid greater stress in Africa, than in the other developing regions, on the establishment of infrastructural facilities. The majority of the facilities called into being with the CMEA countries' co-operation contribute to a strengthening of the public sector of the African developing countries, since once constructed, these facilities get in the possession of the developing countries.



Of the facilities established in Africa 107 are in Egypt, 100 in Algeria, 36 in Somalia, 21 in Ethiopia, 30 in Guinea, 15 in Sudan, 14 in Mali, and 5 in Morocco, and some other facilities were constructed with the help of the socialist countries in Angola, Benin, Ghana, Congo, Libya, Mozambique, Nigeria, Zambia, Tanzania and Tunisia.

The Soviet Union established in Africa some 500 facilities of national economic significance /168 in industry - 26 in energy, 15 in metallurgy, 8 in petrochemistry, 26 for metal working -, 57 in agriculture, 11 in transport and telecommunication, and 108 in public health and education/. Of these some 150 are to be found in the countries of Black Africa. 45 of the latter are in operation in industry and energy, 11 in transport and telecommunication, 15 in the extractive industry, 19 in agriculture, and 45 in the field of education and public health.

The facilities called into being in the field of industry are designed on the one hand to contribute to creating the foundation of a domestic national industry, to laying the foundation for the heavy industry, to establishing an energy base, to developing the forces of production, to increasing employment, and to raising the level of qualifications and, on the other hand, they contribute to an improvement of the developing countries' external economic balance, too, as they also serve purposes of import substitution and possibly of export orientation. With a view to this, the socialist countries called into being in the field of industry, on the hand, heavy industry /metallurgical, metal working, engineering and building materials manufacturing/ facilities: iron and steel works in Egypt /Helwan/, in Nigeria /Ajakouta/, in Algeria /El-Hadjar/, in Congo, Mali, Somalia; an aluminium plant in Egypt /Hag Hammadi/, with an annual capacity of 100.000 tons; Romania estab-

lished tractor factories in Zaire, Egypt, Tanzania and Nigeria, and Czechoslovakia in Ghana; the Soviet Union set up in Libya two nitrogen fertilizer factories; in Ethiopia /Assab/ Soviet participation was ensured for the erection of the country's largest oil processing plant, which releases the country from the import of oil products, as its capacity was already 800.000 tons in 1980; the Soviet Union built a cement works in Mali, and the GDR contributed in Mozambique to the reconstruction of the cement industry; the GDR set up in Mozambique an IFA truck assembly plant and electrotechnical enterprises; and on the other hand, energy facilities were established<sup>+</sup> /water and heat power stations, power station complexes in Egypt, Somalia, Guinea, Tanzania, Ethiopia, Angola, Zambia, Libya, Mali, Mozambique, Nigeria and Sudan/.

Besides concentrating on heavy industry facilities, the socialist countries also participate in the setting up of light industry /textile, clothing and shoe/ and food industry establishments satisfying the needs of the population and possibly increasing the country's export potential /Hungary, for example, brought into existence mills, bread factories, slaughter-houses and meat processing plants in Algeria; slaughter-houses, meat complexes were established by the Soviets in Guinea, Somalia, Ethiopia and Sudan; dairy plants in Ethiopia, Somalia and Sudan; the Soviet Union set up in Guinea four fish plants and fish canning plants, and established fish processing plants in Somalia and Angola; the GDR set up a textile complex in Mozambique/.

The co-operation realized in the field of the extractive industry is based on the one hand on the African countries'

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<sup>+</sup> Until the beginning of 1981 the CMEA countries established 502 energy facilities in Africa.

wealth in raw materials /oil, phosphate, iron ore, manganese, nonferrous and rare metals, copper, tin, lead etc./, and on the other on a complex character of the co-operation realized by the socialist countries, which practically covers all phases of the extractive industry activity /sending of geologists, surveying, development of natural resources, delivery of extractive industry equipment, mining machines, production, concentration, treatment, pipeline construction, development of geologists etc./. The CMEA countries co-operation in extractive industry covers above all the following African countries: Algeria /iron ore, oil, nonferrous metals, mercury/, Libya /oil, gas/, Morocco and Tunisia /phosphate/, Egypt /raw phosphate and bauxite/, Ethiopia and Guinea /bauxite/, Ghana /manganese, iron ore, gold, bauxite/, Sudan /bauxite, copper, magnesite, asbestos/, Congo /zinc, lead, gold/, Benin /copper, tin, zinc, molybdenum, cobalt, nickel, chromium/, Mali /cement basic material, iron, gold/, Mozambique /coal/, Nigeria /iron, coal, metallurgical basic material/, Senegal /titanium, gold/, Tanzania /gold, zinc, rare metals/, the Ivory Coast /iron ore, manganese ore/, Angola /oil, raw phosphate/, Zaire /nonferrous metals, copper, lead/, Zambia /copper/ etc.

One of the best examples of complex co-operation in the extractive industry is the Soviet-Moroccan phosphate agreement signed in 1978, in accordance with which the Soviet Union, as general contractor, develops with Soviet credit the open mine of Meskala together with the related transport network, in exchange for which Morocco is to deliver to the Soviet Union, for 30 years, raw phosphate, phosphoric fertilizer, and phosphoric acid.

The most important areas of co-operation in the field of culture are: supply of agricultural means of production, complex facilities, turnkey plants and complex production sys-

tems; increase in and mechanization of agricultural production; establishment of state farms, agro-industrial complexes, agricultural machine stations, stock-raising farms and systems; improvement of veterinary hygiene, plant protection; drawing new lands into cultivation, complex utilization of stocks of land and waters, soil amelioration, soil protection, irrigation; processing of agricultural produces; designing, establishment and equipment of pilot farms and laboratories; education, training of agricultural specialists, sending of agricultural experts, consultancy./In Angola and Egypt the Soviet Union called into being several dozens of mechanized state farms for increasing cotton and wheat production; agro-industrial complexes were established by Romania in Libya, by the Soviet Union in Mozambique, and by Hungary in Algeria; poultry, cattle and sheep raising farms were set up in Algeria by Romania, Hungary and Bulgaria; the Bulgarians co-operate in Mozambique in increasing the production and processing of rice, fruits, tobacco, sugar, vegetables, and of products of animal origin; the Soviet Union undertook the drawing into cultivation of virgin lands, carrying out of soil improvement, supply and establishment of irrigation systems in Egypt, Algeria, Morocco, Tunisia; Romania carried out soil improvement works in Tunisia, Algeria and Morocco; the Soviet Union participates in the supply and establishment of water power plant systems, barrages and in development of water resources in Egypt - Aswan dam, Tahrir district -, in Algeria, Angola, Mozambique, Madagascar, Ethiopia, Guinea, Guinea-Bissau, Tunisia, Mali, Zambia, Nigeria, Somalia; the Soviet Union set up scientific experimental laboratories in Guinea, Congo, established grain stores in Ethiopia, with an average capacity of 200.000 tons./

Another significant domain of co-operation is the development of infrastructure /construction of railways, bridges, roads,

airports, telecommunication systems/, and the development of public health /establishment of hospitals, maternity homes, sending and training of physicians/ and of education.

c/ Technical and scientific co-operation

From the viewpoint of the developing countries' economy and economic development, a very important role is played by technical and scientific co-operation, sending of specialists, training of specialists, and technology transfer being realized by the socialist countries. This form of co-operation is important in the first place because of the impact it exercises on the developing countries, since it promotes in these countries an alleviation of the shortage of specialists, a reduction of technological and technical dependence, it helps to counterbalance the ideological and political influence of the developed capitalist countries and to weaken the demonstration effect, and it contributes to an expansion of the scientific and technical potential of these countries.

The socialist countries' scientific and technical assistance is realized on the one hand within the framework of, or related to, other forms of co-operation /e.g. supply of complete equipment, turnkey plants, usually complete with technology, licence, know-how transfer and training of specialists/, or is conducted independently of other forms of co-operation, under autonomous technical and scientific co-operation contracts, agreements. The socialist countries concluded technical and scientific agreements with some three dozens of African countries.

The most important areas of technical and scientific co-operation being realized with the African countries are as follows:

1. Transfer of licences, know-how, technology, experience in production, management and work organization; co-operation in the elaboration of the appropriate technology; conduct of

joint researches; joint solution of scientific, technical problems; exchange of information; carrying out of consulting-engineering activity in the developing countries; technology transfer in the form of designing and technical services; elaboration of economic and social development plans. /For example, the socialist countries handed over oil, gas and mineral development technologies to Nigeria, Congo and Algeria; the Soviet Union provided technical aid in the field of agriculture to some 25 African countries, including Somalia, Guinea, Algeria, Egypt, Mali, Tunisia; Bulgaria concluded a contract with Egypt on joint solution of scientific and technical tasks in the field of agriculture and food industry; the Algeria-based Hungarian TESCO-KÖZTI office sees to designing services./

2. Assignment of specialists and instructors with the purpose of technical assistance for the construction and putting in service of various facilities of national economic significance, or as consultants or instructors in local facilities, educational institutions. In the late 70s some 90.000 specialists worked in the developing countries from the Soviet Union, the East-European socialist countries and Cuba. About half of the experts on assignment are active in Africa.<sup>+</sup> Half of the socialist country specialists working in Africa were sent from the Soviet Union, and the other half from the other socialist countries.

The socialist countries' specialists work in most different fields of economic life: the Soviet experts /geologists, engineers, physicians, agronomists/ are active mainly in Algeria, Libya, Nigeria, Ghana, Guinea, Mali and Ethiopia in the field of the extractive industry /geological exploration, mapping, test drilling etc./ and in the development of the heavy

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<sup>+</sup>11.750 e.g. in Algeria

industry, of agriculture and of the food industry; Bulgarian stock-breeders, agronomists, engineers, technicians, economists work in Tunisia, Mali, Sudan, Algeria, Nigeria, Tanzania, Kenya, Ethiopia; Rumanians carry out geological development work in Mauritania, Guinea, Nigeria, Kenya; the most important domains of Hungarian specialists - who, among the African countries, mainly display activities in Libya, Algeria, Nigeria, Tanzania, Ghana, Zambia, Ethiopia, Mali, Sudan and Guinea - are: economic management and planning, industrial development, agricultural production, soil amelioration, management of water resources, stock-raising, veterinary hygiene, mapping, geological exploration and prospecting, town planning, town development, public health, education.

3. The training of specialists provided for by the socialist countries include on the one hand the education of Africans at the socialist countries universities and colleges, the secondary-level training of technicians and postgraduate development, furthermore the development and training of local staff in the course of the construction and putting in service of various facilities. On the other hand it covers the establishment of educational institutions and places of research in the developing countries.

The socialist countries' universities and colleges provided education in the early 70s for 24 thousand students, in 1978 for 30 thousand, and currently /1981/ for some 51 thousand. Some 50 per cent of the students of 103 developing countries pursuing studies in the socialist countries are from Africa, and about one third from the countries of Black Africa. Worthy of mention is the Scholarship Fund of the CMEA, with the assistance of which some 3.500 students from 50 developing countries pursue studies in the socialist countries. As to the African students enrolled in Hungarian universities and col-

leges, 3 per cent of them continued studies in the philosophical and law faculty, 5 per cent in the faculty of natural sciences, another 5 per cent in that of economics, 21 per cent in the technical university, 50 per cent in the university of medical sciences, 14 per cent in the faculty of agricultural and veterinary sciences, and 2 per cent in other colleges.

In the African developing countries the socialist countries established 56 higher and secondary educational institutions, and 158 centres for special technical-professional education, where some 350.000 specialists are trained, and they participate in the development of a research base, in the setting up of scientific-experimental laboratories. /In 1973 five technical schools were set up in Algeria with Soviet assistance, which provide among others for the training of agricultural specialists; the Soviet Union brought into existence an education centre in Egypt's Yanaklis, where between 1970 and 1974 1.400 agricultural specialists were trained. The GDR called into being in Egypt's Maryut district an education centre called "Bagdad", which trains agricultural mechanics and machine operators, and puts out agricultural engine fitters, special engineers, technicians. Bulgaria called into being a research centre for waters management. The educational facilities established by the socialist countries are to be found mainly in Egypt, Algeria, Tunisia, Ethiopia, Mali and Guinea./

#### d/ Co-operation in production - joint ventures

More stable and lasting co-operation, than the forms presented above, is assured by the forms of co-operation that cover production, the fundamental determining process of reproduction, and are based on common economic interest existing in production. This is the area where economic interests are manifest most directly, where the socialist countries can show best and most conspicuously the advantages of economic relations



with them /equality, freeness from exploitation, direct and mainly indirect impact on the development of the developing countries/, the marks showing the distinction as to a similar /i.e. production/ co-operation with the advanced capitalist countries.

In the case of production co-operation between the socialist and the developing countries the motivation of the socialist countries is not making profits, skimming the domestic absolute and relative capital surplus, making extra profits, and intensifying thereby the dependence of the developing countries, but creating an alternative for domestic investments /for ones designed to be realized in the socialist countries/, finding markets for sales, assurance of the procurement of certain products, furthermore establishment of an industrial base, a producing capacity in the developing countries, development of agriculture and of infrastructure, increasing their exports and changing their commodity patterns with a view to diversification, promotion of an efficient and equitable involvement in the international division of labour, improvement of their situation in world economy, promotion of the internal economic integration, satisfaction of the needs of local population.

Production co-operation may be realized in various forms. Traditional forms are the sectoral or infra-sectoral co-operation cases - mostly industrial ones - between autonomous producing units, production specialization, mutual use and development of licences and technologies, joint ventures in the field of marketing, services and research, joint ventures mostly relying on the developing countries' raw material and labour bases, the so-called "tripartite co-operation", which includes enterprises from the socialist, developing and advanced capitalist world, and recently horizontal and/or vertical com-

plex co-operation combining various forms of economic collaboration.

Up to now the socialist countries have availed themselves in just a very slight measure of the above-enumerated possibilities and forms of production co-operation in respect of both the whole of the developing countries and Africa. The joint ventures so far called into being in a number of about 100 primarily serve the sales of the socialist countries' commodities /Bulgarian joint ventures in Nigeria, Guinea, Tunisia, Sudan, Morocco, Ethiopia; Soviet joint ventures for machine sales in Nigeria, Ethiopia, Hungarian joint venture in Nigeria for the marketing of pharmaceutical preparations/, or carry out technical and scientific activity /e.g., the Hungarian Nigerian Mapping Co. Ltd. Lagos displays geodesic, mapping, cartographic, aerial photographic and technical designing activity in Nigeria; the TESCO-KÖZTI Consulting Engineering Ltd., Calabar, handles civil engineering and overground construction tasks/.

The overwhelming majority of production-type joint ventures - in which joint capital interests are held by the developing country and CMEA country partners - were established by the CMEA countries in the African countries' extractive industry. In the raw material ventures called into being in the African countries the CMEA generally holds 10 to 49 per cent of the shares. The greater part of socialist shares is made up of machinery and equipment supplies, various technical and scientific services, whereas the smaller part is represented by convertible currency contributions. Romania is the most active in the foundation of extractive industry joint ventures: in 1977 it established a joint venture with Burundi called Somiburom for the geological exploration and exploitation of non-ferrous metals; the joint venture established in Kenya con-

cerns itself with the development of the African country's lead, zinc and silver production; the Mokambo Romanian-Zambian venture carries on copper exploitation in Zambia; recently a Romanian-Algerian joint venture called Alicsme was established for the exploration of new oil fields. The Soviet Union participates in bauxite production in Guinea /Kindia mine/ and takes over 90 per cent of the output of the mine having an annual capacity of 2.5 million tons.

It is probable that in the future there will be an increase in the number of joint ventures called into being by the socialist countries, mainly in the African countries' extractive industry, and possibly in their light and food industries. The activity of these is expected to cover the exploitation, the processing of raw materials in Africa and the exports of processed raw materials and finished products to the socialist countries. By their help the African developing countries will come by capital goods, modern technologies, and reliable sales outlets, while the socialist countries may safely rely on continuous deliveries of the products of such ventures.

e/ Financial and credit relations

It is perhaps not accidental that among the forms of co-operation the last to be mentioned are financial co-operation, credit granting and rendering of assistance. The intention is to emphasize thereby that in the economic relations the socialist countries realize with the developing countries, and among them with the African countries, they don't want to put on the first place credit granting and the rendering of assistance. They don't want to promote the "assistance" of the developing countries by a transference of financial means, but through the forms of co-operation analyzed above in detail, through enforcing to the full the basic principles presented. Naturally the socialist countries also engage in credit granting and ren-

dering assistance, considering it as a means that furthers, accelerates and strengthens the development of co-operation between the two groups of countries.

In the interest of achieving this goal, the socialist countries conclude financial agreements with the African developing countries. Instead of the previous clearing account, a changeover is being made more and more to accounting in convertible currencies featuring greater dynamism and flexibility. A definite tendency is becoming evident towards making accounts multilateral and making use of the transferable ruble for the financing of plants established in the developing countries and for amortizing debts, for settling them on a multilateral basis. A new possibility is offered by the 1 billion ruble Special Fund of the International Investments Bank of the CMEA, which may be used for the establishment or reconstruction of /energy, metallurgical, chemical, textile industry etc./ plants in the developing countries.

Within the framework of financial agreements the socialist countries grant credits - state or government credits and commercial firm credits - to the developing countries, among them to the African developing countries. The credits have very favourable terms: the socialist countries usually grant their government credits for 8 to 12 years, with a 2-3 per cent interest, the amortization of which either occurs in convertible currency or by deliveries of the developing country's traditional export products, or - and this is what occurs most often - by deliveries of products /oil, gas, steel plate, tin and copper concentrate, aluminium, bauxite, carbamide; coffee, cotton, caoutchouc, tropical fruits, cocoa, clothing items, shoes etc./ of the facilities financed by the credit. Since the greater part of government credits are loans serving the

construction of definite facilities<sup>+</sup>, the distribution of credits by use and sector fully coincides with the sectoral structure of the establishments constructed by the socialist countries: in 1979 three fourths of the credits granted by the Soviet Union and the socialist countries went to the producing sphere, and within it to industry, whereas in the same year just 19 per cent of the official development aids /ODA/ of the advanced capitalist countries went to the developing countries' producing sector, with a 6.1 per cent share going to industry. In the case of the Soviet Union an even more favourable picture is shown by the distribution of credits: 71.5 per cent went to industry, energy, 9.7 per cent to agriculture, 1.6 per cent to transport and communication, 9.0 per cent to the extractive industry, 7.0 per cent to education and public health, and 0.7 per cent to the development of housing.

While between 1965 and 1972 half of the credits granted by the socialist countries were received by the African countries, by the mid-70s the share of the African continent fell below 30 per cent, which is to be attributed to a diversification of the socialist countries' credit granting. On the part of the socialist countries the most important donor is the Soviet Union, which accounts for 50-60 per cent of all credits. This is of particular significance for the African developing countries for the reason that the overwhelming majority, some 80 per cent, of Soviet credit grantings is made up of government credits, which are granted on more favourable terms than commercial credits. /While state credits are granted with a

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<sup>+</sup> Recently the Soviet Union granted to Algeria a 715 million dollar credit for increasing steel and aluminium production, and it gave a 2 million dollar credit to Morocco for phosphate exploitation and supplies.

Table 6

The socialist countries' granting of credits to the developing countries /million US \$/

	1954-1972	1973	1974	1975	1976
Bulgaria	334	43	117	17	8
Czechoslovakia	1341	303	108	168	1064
GDR	857	...	46	277	105.
Hungary	542	148	110	151	20
Poland	719	247	107	54	52
Romania	910	36	752	465	261
Soviet Union	8147	1230	1260	1642	1208
CMEA countries, total	12850	2007	2500	2774	2718
Credits granted to Africa	6193	746	761	639	720
Share of Africa /%/	48.2	37.2	30.4	23.0	26.5

Source: Afrika v 70-80-ye gody, stanovlenie natsionalnoy ekonomiki i strategiya razvitiya, "Nauka" Publisher, Moscow, 1980, p. 297

2.5-3.0 per cent interest rate, for 10-15 years, with a grace period of 1-3 years, in the case of commercial credits the rate of interest is higher /3.0-3.5 per cent/ and the period of repayment is shorter /5 years//.

The socialist credits were divided by and large on a fifty-fifty basis between the North African and the Black African countries, showing of course very great fluctuations by the year and in certain periods. In general it can be stated that while in the 60s and in the early 70s socialist credits went mainly to the North African countries /to Egypt in the first place/, from the mid-70s the countries of Black Africa have gained much in significance. Within the Black African region

the most important recipients are: Sudan, Ghana, Guinea, Ethiopia, Mali and Zambia, and from the late 70s Angola and Mozambique.

#### 4. Geographical distribution of relations and partner selection

Economic co-operation between the two groups of countries, the socialist and the developing - among them the African - countries, may be stable, long-term and advantageous for both parties if the partners' economic and politico-strategical interests coincide also in the longer run. In case partner selection is made in subordination to the interest of one party only, then the appearance or becoming prevalent of the other's interest leads to a loosening, a disorganization of relations. From this viewpoint, however, political and economic interests are not equivalent. In case partner selection is based just on political motivation, with the change of political relations the economic ones having been launched regress fully, stagnate, or decline to a minimum level /see e.g. the evolution of economic relations with Somalia in 1978/, or if political change is in favour of the socialist countries, they may begin to develop all of a sudden /see e.g. the large-scale deliveries to Angola and Ethiopia/. On the other hand, relations based on mutual economic interests - even if the political situation is unstable - remain on an unchanging level, or may even develop /see e.g. the shaping of relations with Nigeria or Sudan/.

Examining the structure by country of the socialist countries' exports to and imports from the African developing countries it can be stated that the greater part of relations are maintained, even now, with the North African region, which can be attributed to the geographical proximity of the North African region; to the traditional character of relations with these countries, to the greater absorptive capacity and flexibility of the market, and to a relative development of infrastructure

Table 7

Geographical distribution of the socialist countries' exports to Africa /%/

	1970	1975	1977	1978	1979
Algeria	9.8	14.4	18.2	15.1	....
Egypt	60.0	35.4	24.7	19.9	19.0
Libya	5.8	23.1	22.2	26.0	28.2
Morocco	5.8	7.4	5.6	5.8	4.1
Tunisia	1.4	1.9	1.6	1.7	2.4
The 5 North African countries	82.8	82.2	72.3	68.5	53.7 <sup>+</sup>
Cameroon	0.3	0.3	0.4	0.5	0.5
Ethiopia	0.7	0.6	1.8	3.9	2.9
Ghana	1.7	1.1	1.3	0.8	...
Guinea	1.2	2.0	1.5	1.2	1.4
Ivory Coast	0.1	1.4	0.8	0.8	0.6
Nigeria	3.7	6.9	8.4	9.0	5.4
Somalia	0.3	1.6	0.5	0.0	0.0
Sudan	6.2	2.0	1.4	1.6	1.0
Tanzania	0.2	0.4	0.5	0.8	0.8
Total of countries above	97.2	98.5	88.9	87.1	66.3 <sup>++</sup>
Total for Africa	100.0	100.0	100.0	100.0	100.0

Source: Own calculations based on figures on pages XXX, XXXI, XXVIII, XXIX of Monthly Bulletin of Statistics, July 1981, Vol. XXXV, No. 7

<sup>+</sup> Without Algeria

<sup>++</sup> Without Algeria and Ghana



Table 8

Geographical distribution of the socialist countries' imports from Africa /%/

	1970	1975	1977	1978	1979
Algeria	10.2	15.0	6.2	9.0	7.9
Egypt	57.8	45.0	37.1	22.6	19.2
Libya	0.1	4.8	13.3	21.3	31.7
Morocco	6.4	11.5	9.0	9.1	8.9
Tunisia	1.6	2.1	1.7	1.4	0.6
The 5 North African countries	76.1	78.4	67.3	63.4	68.3
Cameroon	1.1	2.7	2.1	1.3	0.7
Ethiopia	0.1	0.3	0.3	0.6	1.1
Ghana	6.9	4.9	8.6	8.0	8.3
Guinea	1.1	1.4	3.3	2.6	1.4
Ivory Coast	0.5	1.5	2.8	6.4	4.7
Nigeria	3.5	5.5	1.4	4.6	0.6
Somalia	0.0	0.3	0.0	0.0	0.0
Sudan	8.2	1.4	2.3	2.3	2.7
Tanzania	0.4	0.5	0.3	0.2	0.3
Total of countries above	97.9	96.9	88.4	89.4	88.1
Total for Africa	100.0	100.0	100.0	100.0	100.0

Source: The same as for Table 7

and of the market organization. On the other hand, while previously the most important partner in this region was Egypt, which accounted for 60 per cent of all African turnover of the socialist countries in the 60s and in the early 70s, by the late 70s and early 80s Libya and Algeria have become the most important partners.

While in the 60s economic relations maintained with the African countries were concentrated - mainly because of political considerations - on just a few countries /Egypt, Guinea, Ghana, Sudan/, in the 70s - with political motivation remaining prevalent - greater stress was laid on a development and diversification of relations based on mutual economic interests, primarily towards such countries where agricultural produces and mineral raw materials could be relied on as setoff /Libya, Algeria, Morocco, Nigeria, Sudan/. From the mid-70s - simultaneously with the increase of Africa's international political weight - we can witness again an establishment of relations on grounds of political motivation /with Angola, Mozambique, Ethiopia, and partly with Libya/, but a further development of relations will probably depend on the mutuality of economic interests, too.

In the future the most important partners of the socialist countries will be or remain, on the one hand, the potential raw material and fuel exporters and the countries having considerable solvent markets /Algeria, Libya, Nigeria, Sudan, Guinea, Morocco, Tunisia, Zambia, Angola/, on the other hand, we will further develop, on the basis of political viewpoints, the relations with the socialist-oriented African countries /Angola, Mozambique, Ethiopia, Tanzania/.

On the part of the socialist countries the most important supplier to Africa is the Soviet Union, which in 1979 accounted for one third of the CMEA countries' exports to Africa, after

which Romania, Bulgaria and Poland, and then Czechoslovakia and Hungary follow suit.

Table 9

Distribution of the socialist countries' exports to Africa among the socialist countries /%/

	1970	1975	1977	1978	1979
Bulgaria	4.9	10.5	13.5	13.8	13.4
Czechoslovakia	11.3	11.4	8.2	9.8	9.0
GDR	6.1	6.4	8.9	10.3	10.6
Hungary	4.9	4.7	6.6	6.9	6.8
Poland	8.4	12.3	12.9	11.5	9.9
Romania	5.8	14.3	14.8	15.0	17.2
Soviet Union	58.6	40.4	35.1	32.7	33.1
Total	100.0	100.0	100.0	100.0	100.0

Source: The same as for Table 7

Table 10

Distribution of the socialist countries' imports from Africa among the socialist countries /%/

	1970	1975	1977	1978	1979
Bulgaria	3.5	4.1	4.6	3.1	4.0
Czechoslovakia	7.9	8.0	9.0	4.3	2.2
GDR	6.5	6.0	11.4	9.3	6.0
Hungary	4.6	5.6	6.4	7.5	4.0
Poland	6.4	11.1	7.0	5.4	7.4
Romania	3.6	10.6	9.5	21.2	24.7
Soviet Union	67.5	54.6	52.1	49.2	51.7
Total	100.0	100.0	100.0	100.0	100.0

Source: The same as for Table 7

Among the CMEA countries the most significant importer is also the Soviet Union /with half of all CMEA imports of African origin/; and the second place is taken by Romania. They are followed by Poland, the GDR, Hungary, Bulgaria and Czechoslovakia.

L i t e r a t u r e

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The problems of relations between Hungary and the EEC

by

Miklós Losoncz

Hungary has a small national economy which is largely dependent on the international division of labour. The extent of openness towards the world economy is well indicated by the fact that the ratio of exports to the GDP surpassed at the end of the seventies 40 per cent. The importance of Western connections of Hungarian trade is indicated by the circumstance that according to OECD data Hungary's exports to the OECD countries increased between 1973 and 1980 from 1090 million to 2820 million dollars, and her imports from the OECD countries from 1090 million to 3260 million dollars.

Due to the lack of a seashore, as well as the small economic dimensions, limited resources, narrow financial and marketing background, less developed external sales set-up, Hungary has joined to a relatively low extent in long-distance trade. The "centredness on Europe" of Hungary's selection of trading partners is shown clearly by the fact that 90 per cent of her OECD trade is transacted with Western Europe, and within this overwhelmingly with the countries of the European Economic Community. Consequently it is far from indifferent to Hungary what trends gain the upper hand in the evolution of the EEC, how the EEC reacts to the world economic changes of the seventies.

Since the international markets are characterized at present by the existence of a "buyers' market", the strengthening competition of supply, a small national economy

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like Hungary's can, in the possession of an adequate purchasing power, acquire without any special difficulties the overwhelming part of the imports which it needs. For this reason, it is useful to survey primarily the factors influencing Hungarian exports, in her economic relations existing with the Common Market. The "bottleneck" of the development of connections is in the present circumstances the Hungarian export. The increase of this determines the dynamism of the development of relations.

The influence of the EEC external economic policy on Hungarian exports in the seventies

The development of Hungarian exports was affected rather unfavourably in the seventies by the shift of the dynamism of the world economy to extra-European areas: the American continent, Japan and the Pacific area, and the oil-producing countries. Compared to the regions growing more rapidly, it is more difficult to increase exports to the more slowly expanding markets; in order to increase exports it is also necessary to drive competitors out of the market. The slowdown of the economic growth of the EEC countries and of the dynamism of their import demand created by itself an unfavourable situation from the aspect of increasing Hungarian exports.

It further proved to be unfavourable to Hungary that in the seventies the extension of the network of agreements of the Common Market became accelerated, in the wake of the temporary exhaustion of the driving forces of vertical progress the horizontal expansion of the integration unfolded. The international agreements of the EEC, the tariff preferences offered by the Common Market affect in five bands the exports of the countries left outside the contractual system of the EEC, including Hungary.

The industrial free trade agreements between the Common Market and the EFTA countries which did not join the EEC /according to which customs duties and taxes having the effect of customs duties ceased to exist on industrial products from July 1st 1977/; from 1972 the annually increasing UNCTAD general preferences for the semi-finished and finished products of the developing countries; the preferences introduced between the Common Market and 60 developing countries within the framework of the Lomé Agreement; the free trade in industrial products realized between the Common Market and the Mediterranean countries on July 1st, 1977; and further the actual EEC membership of Greece and the forthcoming full membership of Portugal and Spain increased or are going to increase considerably the competitive advantages of the products competing against some of Hungary's industrial and agricultural products, and the competitive disadvantages of her customs duty-sensitive industrial products in the Common Market countries.

In return for the customs preferences offered by the Common Market, the beneficiary countries /with the exception of the countries of the Lomé Agreement/ also grant preferences to the EEC countries on their own markets. As a consequence, in the beneficiary developing and South European countries, as well on the markets of the EFTA countries, Hungarian exports suffer a disadvantage too.

The competitive position of Hungarian exports is affected greatly by the discriminatory common agricultural policy of the EEC, as well as by its sectoral policy in respect of the textile clothing and metallurgical industries which have fallen behind in the world economic re-structuring processes. In such sectors demanding economic policy protection as the leather-, the shoe-, the shipbuilding-, the

ceramic industries, and in some chemical branches producing homogeneous intermediates, in the aluminium industry, and in the household electronics industry the pressure is likely to increase in future for the introduction of import-regulating measures on an integration-wide scale.

In the sectoral-structural projection, due to the similar commodity-pattern of supply, the preferences granted to the low cost developing and the medium-developed South European countries, as well as the sectoral policy of the EEC, lower especially gravely the competitive position of those light industry consumer goods and semi-finished products the weight of which is important and above the average in the Hungarian exports to the EEC. The division of labour developed within the EEC and with the EFTA countries makes Hungary's access to the market difficult in the more modern engineering sectors which are on a higher level of the technical-structural transformation.

In this connection it is not without interest that in spite of the development of the division of labour within the integration, on the world market of the sectors belonging to the frontline of technical progress, the weakening of the EEC countries, including the FRG, may be observed, parallel to the strengthening of the position of Japan and at the end of the seventies, of the USA. This circumstance makes it difficult on the import side that Hungary should rely in a wider province on the West European technologies in the modernization of her economic structure.

The clumsiness of the decision-making system of the EEC, its administrative trade mechanism is also the source of considerable losses for Hungary's exports. The extremely involved system of the certificates of origin is no small obstacle to the development of co-operation between enterprises of Hungary and of the Common Market.

The extension of the EEC towards the south hardens the market access conditions to Hungarian products in the case of countries which had created in recent years above average conditions for the modernization of the Hungarian export pattern.

The experience of the seventies showed that the West European integration developed towards regionalism. This developmental trend deviates from the global nature of international problems and does not stimulate all-European co-operation either. In addition to the continuation of détente and the development of East-West relations, the reduction of the economic backwardness of the South European countries may form a particular area of all-European co-operation.

Consequences of EEC external economic policy, the main directions of Hungarian adjustment

The European Economic Community and its network of agreements form a trade policy bloc of such a size which is difficult to circumvent if only for reasons of order of magnitude. The world economic expansion of the EEC is well-indicated by the fact that whereas in 1960 the exports of the six founding member countries amounted to 23 per cent of world exports, at the end of the seventies the EEC and the network covered by agreements accounted for over two fifths of world exports. In 1960 the exports among each other of the six founding countries formed 8 per cent of total world exports, and at the end of the seventies 30 per cent of world exports were sold within the free trade zone of the Common Market's network of agreements.

Export markets which would be of a similar size as Western Europe cannot be considered by Hungary outside the European continent. Although the share of the USA and

Japan may grow somewhat in Hungarian exports, especially the relative weight of the USA, but due to the geographic situation, the huge distances, the lack of traditions, neither of these countries can become an alternative export market.

In western Europe the main markets for Hungarian exports are the EEC countries. The share of the Common Market in Hungarian exports increased from 17.1 per cent in 1973 to 19.5 per cent in 1980. The rise in the EEC share is almost entirely connected with the increase of the importance of the FRG market, the share of which increased between 1973 and 1980 from 6.2 to 9.7 per cent. A smaller rise may be observed in respect of France and Holland, while the relative weight of Italy diminished, and that of the other EEC countries remained unchanged.

In spite of the increasing share, the external economic policy of the EEC created less favourable conditions for the dynamization of Hungarian exports than other regions. This is indicated by the fact that in the Hungarian exports to the OECD countries the relative weight of the EEC diminished between 1973 and 1980 from 71.8 to 66.8 per cent.

But the share of the EEC developed differently in respect of the different important commodity groups /SITC 1 and 2 digit level/. The unfolding of the discriminatory common agricultural policy, in the wake of the stopping of beef imports in 1974, reduced the EEC share in Hungarian food exports between 1973 and 1980 from 82 to 69 per cent. Diverting of exports to regions outside the EEC occurred in the product groups of raw materials, wood products, non-ferrous metals, transport vehicles, and footwear. However, the increase of EEC orientation in the other product categories was insufficient to stabilize the share of the EEC within Hungarian exports to the OECD countries.

In this connection it deserves attention that in the wake of the extension of the area covered by EEC agreements, sales conditions for Hungarian goods deteriorate also in the markets of the EFTA countries which belong to the economic policy sphere of influence of the Common Market. External economic orientation towards the overseas industrialized countries would be on the part of Hungary an external economic policy compulsion.<sup>x/</sup> The narrowing of east-west relations, the choice of external economic partners by Hungary and the other CMEA countries based on factors of compulsion cannot be in the interest of the EEC and of the countries belonging to its economic policy sphere of influence either. This can especially not be so in a period, especially from the aspect of the small West European countries, when the dynamic areas of the world economy can be found in the extra-European regions. It seems that without the development of the division of labour within Europe, the world economic positions of Western Europe may also become whittled down in her competition with Japan, the USA, and the developing countries which are becoming industrialized. Consequently, Western Europe must strengthen her position first on her own continent in order to achieve market successes in other regions too in the sharpening competition.

Hungary, which counts for a small unit in the world economy and has a low international bargaining power, can at the most moderate by external economic policy means the disadvantages connected with the external economic policy of the EEC, but cannot fully neutralize them. The aim of

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<sup>x/</sup> Béla Kádár: Wirtschaftsbeziehungen zwischen Ungarn und der Europäischen Wirtschaftsgemeinschaft /Economic relations between Hungary and the European Economic Community/. Budapest, 1981



the agreements made so far with the EEC has been the ensuring of the continuity of relations and the moderation of the more unfavourable influences. In the area of agriculture Hungarian exports are exempt from the subsidiary burdens applying to EEC imports through technical agreements linked to the various farm products. The metallurgical and textile agreements regulate the quantitative and market access conditions of products that may be exported from Hungary to the EEC.

The agreements mentioned have only moderated those unfavourable influences which the external economic policy of the EEC has exercised also on the re-structuring of Hungarian exports. The commodity structure of Hungarian exports is much more unfavourable in relation to the EEC than in relation to other OECD regions and countries. This is due, to no small extent, to the dispreferences affecting approximately 50 per cent of Hungarian exports.

In connection with the EEC's discriminatory agricultural policy, the share of agricultural products fell in Hungarian exports between 1973 and 1980 from 42.2 to 22.6 per cent. The place of the disappearing agricultural produce was taken by products of the light industry sectors which fall behind in the world economic structural transformation. For instance, the relative weight of wearing apparel in Hungarian exports increased from 12.7 per cent in 1973 to 16.8 per cent in 1980.

The OECD countries outside the EEC provided more favourable conditions for the expansion of Hungarian engineering exports both from the aspect of economic regulation and the dynamism of the structural transformation of the export markets. While the relative weight of machinery increased between 1973 and 1980 from 6.1 per cent to a mere 10.5 per cent in Hungarian exports to the EEC, it increased from 7.9 per cent to 17.3

per cent in respect of the other OECD countries. It seems that the structural transformation of Hungarian exports to the Common Market has been characterized by forced specialization.

For Hungary, an evolution of the EEC parallel to the increase of openness towards the world market and the diminution of protectionist tendencies, would appear favourable. An essential condition of relations with the EEC is the establishment and institutionalization of contacts between the CMEA and the Common Market integrations, the mutual consideration of each other's interests.

#### The problems of Hungarian-Italian relations

Italy is - behind the FRG and Austria - Hungary's third most important trading partner among the OECD countries. On the other hand, for Italy the trade with Hungary is of marginal importance. At the end of the seventies Hungary's share amounted to but 0,3 per cent in Italian exports and imports.

The intensification of the structural problems in Italy creates substantially different conditions, as against earlier periods, for the development of Hungarian-Italian relations. These changed conditions are reflected, among other things, also in the fact that the share of Italy in Hungarian exports diminished from 6,5 per cent in 1973 to 4,4 per cent in 1980.

In its present structure Hungarian exports clash in a band of above average width against the barriers caused by the slow structural adjustment of the Italian economy, the import regulating policy of the Common Market, the competition from the developing countries which are becoming industrialized. Especially sensitive to trade policy discrepancies, to the business cycle and to the sharpening

of the external competition are the live animals /22 per cent of Hungarian exports/, meat and meat products /15 per cent of Hungarian exports/, metallurgical products /6 per cent/, and textiles /2,5 per cent/.

According to the experience of the seventies, co-operation agreement between Hungarian and Italian enterprises lag far behind the Hungarian-West German and the Hungarian-Austrian co-operations in respect of both their number and their duration. A considerable part of the Hungarian-Italian co-operation lasted for a short time in the seventies. Out of the 780 co-operation agreements registered between Hungarian enterprises and enterprises of the OECD countries in 1980, only 35 were concluded with Italian enterprises. Out of these 14 were industrial co-operations /ten in the engineering industry, and two each in the chemical industry and in farming/.<sup>x/</sup>

The low level of inter-enterprise co-operation is not entirely independent of the commodity pattern of Hungarian exports.

One of the most important conditions for the development of Hungarian-Italian economic relations is the rapid transformation of the Hungarian supply structure, and parallel to this, the broad introduction of closer forms of co-operation. In respect of agriculture, the extension of co-operation to various areas of joint breeding, storage, marketing, and their various combinations appears practical.

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<sup>x/</sup> Dr. Iván Várnai: The role of external economic factors in the endeavours of the Italian economy for structural change in the seventies; the critical stage of Hungarian-Italian trade relations and the alternative of further development /in Hungarian/. Budapest, 1980. p.

In the course of the change-over transitory Hungarian losses may be counted with, and also that some new forms of co-operation may also conflict with the interests of the Italian partners.<sup>x/</sup>

In the processing industries the high degree of differentiation of the market must be taken into consideration in connection with the activities of the small and medium-size enterprises, the enterprises in which the state has a share /IRI/, and the large groups. Until now Hungarian external economic policy has concentrated its energies to a too large extent and one-sidedly on the large corporations, and neglected the small and medium size enterprise sector which proved to be in the seventies the most dynamic factor of the Italian economy. One of the reasons for this is that it is more difficult to build up lasting co-operation with the small and medium size enterprises than with the large companies. In order to increase Hungarian engineering exports, it is also necessary to broaden the narrow assortment of products /electric motors, telecommunication components, machine-tools, compressors/.

A promising area for Hungary is the joining in the realization of the infrastructural projects which have been passed to the competency of the provinces, by supplying equipment for professional training, health services, water management, and environmental protection, partly as sub-contractors to local suppliers and partly as general contractors making use of the services of local sub-contractors.

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<sup>x/</sup> Balázs, Péter: Economic relations between Hungary and the South European region /in Hungarian/. In: *Külgazdaság*, No.5/1980. pp. 41-43.

Hungary is interested in increasing co-operation with the South European countries, which- compared to the West European countries - grow faster and modernize their economic structure more rapidly. These countries offer favourable conditions for the modernization of the Hungarian export structure. At the same time, the elimination of the economic backwardness of the South- and South-East European OECD countries, the development of economic co-operation, may contribute to the damping down of the political disequilibrium of the area, and thereby to the intensification and stabilization of détente in Europe. This endeavour meets also with Italy's interests in the area.

In respect to some countries, in Greece, in connection with her full membership in the Common Market, the market access of Hungarian exports deteriorates also in the medium term. In the main co-operation areas linked to the supply of Hungarian machinery: in the domains of power supply, urban and long-distance bus transport, the alumina and aluminium industry, the extension of the telecommunication network, the development of the infrastructure of the harbours, the joining of Italian enterprises in the co-operation, joint Hungarian-Italian offers on the Greek market cannot be excluded.

In Turkey, after the international solvency of the country has been restored, possibilities for joint offers are most favourable in the electric power industry, the construction of railway- and urban transportation, in mining, in the processing of ores, and in the food industry.

Margit Rácz, -Éva Szita:

Summing up comments about Italian-Hungarian  
cooperations

On the basis of the reconciled plan of joint Hungarian-Italian research on cooperations we have made an empirical survey of the following cooperation agreements.

- 1./ Commercial cooperation between SADEMI /Milano, SAE /Milano/ and TRANSELEKTRO /Budapest/ in components for long distance transmission lines, and questions of cooperation on third markets.
- 2./ A cooperation opportunity in the area of ventilation technology.  
Mistral /Milano/ - Intercooperation /Budapest/, Szellőzőművek /Budapest/;
- 3./ Manufacture in cooperation of plastics processing thermoforming machinery  
Triulzi /Milano/ - Technoimpex /Budapest/, OVM Vas- és Müanyagipari Szövetkezet /Orosháza/;
- 4./ Joint marketing of gas turbine power stations on third markets  
FIAT TTG /Torino/ - GANZ ELECTRIC WORKS /Budapest/, TRANSELEKTRO /Budapest/;
- 5./ Cooperation in distribution of photo-chemical and photo-technical products  
3 M Italia, Segrate /Milano/ - Forte /Vác/, Chemolimpex /Budapest/

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- 6./ Production of slaughtered and chopped pre-cooled rabbit  
Menozzi-Fratelli /Torino/ - Geracse Farm  
Cooperative /Tardosbánya/, TERIMPEX /Budapest/
- 7./ Single general contracting on a third market:  
establishment of a tool- and prototype manufacturing factory in Iraq  
Volani /Rovereto/ - Technoimpex /Budapest/
- 8./ Joint manufacture of filter- exchange equipment  
for swimming pools  
Castiglione /Milano/ A+T - Aprilis 4  
Engineering Works /Nagykanizsa/ Nikex /Budapest/.
- 9./ Manufacture of construction machinery in  
cooperation  
Coma Italia /Castel-Bologna/ -  
ÉPGÉP /Budapest/, Nikex /Budapest/.

In the following text generally we will refer to the cooperations with the name of <sup>the</sup> Italian firm.

The sample which was examined in the first phase of research may be considered a true sample from the aspect of the general experience with Hungarian-Italian cooperation agreements. The sample included 6 cooperation agreements in the engineering industry, one in the food industry, one in the chemical industry, while one cooperation involved the supply of Hungarian machinery and Italian building activity. The cases under investigation include cooperation of which the main characteristic is coproduction /e.g. FIAT, Coma/ the supply of goods

connected with joint R+D /Menozzi F./, cooperation on third markets /Volani/, an exchange of assortment /3M Italia/. Among the Hungarian partners the producing enterprises include large /e.g. GANZ/ and medium size /Forte/ enterprises as well as cooperatives. The weight of cooperation activity in their total turnover also varies. In the best years GANZ deliveries in cooperation with FIAT amounted to 20% of its total exports, while in other case the value of cooperation deliveries accounted for less than 1% of the annual sales of Hungarian foreign trade enterprise concerned. We have analysed separately some cases, where cooperation was discussed but no agreement was reached.

Description of the cooperation agreements, their history and the difficulties /characteristics/ of implementation are contained in the case studies.

#### 1./ Fundamental factors defining the interests of the enterprise

On the Italian side the interests to export were the strongest motivations for cooperation to go beyond simple commercial transactions and to be kept in force for a long period. This may be formulated in the claim that they wanted to prevent the narrowing of the Hungarian market.

In boom conditions the Italian partners are less disturbed by the Hungarian wish for counter deliveries than in recession.

Consequently, today it takes additional efforts to sustain the cooperation agreements and to extend them. It seems



that one of the most important potentials exists in the development of cooperations on third markets.

On the Hungarian side in addition to the export interest, the interest in obtaining imports which promote technological progress also plays an important role /e.g. Coma, Menozzi F, Castiglione/.

We have experienced that since in recent years the enterprises were driven by exports that could be realized rapidly and they had no great opportunities for investment, they did not enter into substantial purchases of licences, and consequently they mostly handle products which they already had available earlier too. This is today a trade-constraining factor.

## 2./ Cooperation on third markets

Out of the nine inter-firm cooperations which have been examined, organized or spontaneous, casual or repeated third market activity has occurred in four cases. /FIAT, Volani, Sadelmi-SAE, 3 M Italia/. In three further cases /Triulzi, Mistral, Coma/ the enterprises are of the opinion that it would be an appropriate way for re-starting or breathing new life into the relationship if the partners jointly turned towards third markets et, exploiting the existing contacts of one or the other. On the Hungarian side, with few exceptions it was an attractive feature of the cooperations, that they did not require investments, or the technology transfer aiming at the cooperative goal was free of charge.

In the case of FIAT and Ganz Electric Works the cooperation contract is expressly about organizing product-sharing, which enables the two firms to appear on third markets regularly. With more or less regularity the contact has been alive for more than ten years, and the joint transactions have been successful.

In two cases "once only" transactions were involved /the construction of the tool manufacturing factory in Iraq, and the general contracting with Sadelmi-SAE/. In both cases the Hungarian party was the general contractor and thus the initiator.

Third market cooperation with 3 M Italia, and later with the center of the multinational corporation in the USA came about spontaneously and has been successful. In the case of larger orders the subsidiaries of the multinational corporation help the Hungarian enterprise fulfil the order /supplying packaging material, films/. By creating organizational opportunities for selling outside Italy /USA/, the cooperation has become more stable. The opportunity for the further considerable growth of Hungarian exports make the multiplication of the turnover possible, because Hungarian import requirements can be payed for by counter-deliveries.

In three other cooperation agreements the Italian partner did not endeavour third market activities. In all three cases they have the necessary market contacts and commercial network.

It seems that in the period of worsening business conditions joint entry to third markets may in many cases

become one of the conditions of the cooperation. The experience has been that "balanced trade of third markets" was established with western, in our case with Italian firms, in other words, both parties provided transactions for third market cooperation, but as soon as the "stock" of one party was exhausted, the other did not offer new opportunities. Usually the Hungarian party is the first to exhaust its "stock", owing to its less extended contacts on the world market. As in the case of every balanced transaction, it is here too the party capable of the lower performance that determines the level, and consequently fewer third market cooperations are established than would be made possible by the complementary nature of Hungarian industry.

Cooperation on third markets may be placed on new foundations:

- According to the available information, in the case of the realized cooperations /FIAT-Ganz/ the deliveries of the Hungarian enterprise met the requirements in price, quality, delivery on time, and Ganz even offered similar credit conditions as FIAT for its own deliveries, at the request of the latter.

- In numerous cases the Hungarian enterprises consider that they would be suitable for completing the transaction, since they are satisfactory partners, among other reasons because through cooperation with the Italian partners they have already adapted themselves to the technical and commercial traditions and usages of

the latter. The West-German firms are very skilful in exploiting this opportunity for arranging third market transactions in which West-German firm is usually the general contractor acquainted with the market and the deliveries of sub-contracting Hungarian enterprise complement the project.

### 3./ Some summary comments about cooperation in the engineering industry

Out of the nine cases under investigation six belong to the engineering industry. Out of these cooperations, it was the SADEMI /which is not a real cooperation/ and the FIAT-GANZ which functioned successfully - with the exception of a few years -, the Coma functioned more or less. There were hitches in the case of Castiglione, and there was up till now a failure in the Triulzi cooperations. There was no success in the Mistral one.

- Whether the cooperating Italian partners are small /Mistral/ or large /FIAT, Castiglione/, the willingness for coproduction or specialization has existed in each case.
- In essence, with the exception of FIAT, the will to appear jointly on third markets has been non-existing or small and rudimentary /as opposed to the West German partners, who themselves initiate it/.
- It is cooperation in the engineering industry that is most afflicted in Hungary - according to the examples - by the temporary import restriction /e.g. Castiglione, Coma cooperations/, mainly

because these would often involve continuous imports.

- In the cases examined the success or failure of the cooperation has not been dependent on the technical level of the product in the joint manufacture or marketing of which the partners were engaged. Even if sometimes after smaller hitches and delays, the Hungarian partner acted successfully whether products of a high technical standard were concerned /Ganz-FIAT, Triulzi, Coma/, or the cooperation required less technical ability /Castiglione/.

The different forms of cooperation - the transfer of the production of a machine to Hungary /Mistral, Triulzi/, or the sharing of production /the manufacture of relatively simpler parts of swimming pool equipment in Hungary/ - are not established primarily because Hungarian production or manpower offer great comparative advantages, but because this is a possible form of the arrangement of exports and imports. It must be remarked that no form has been found in the inter-firm relations, which in earlier years often used to disturb cooperation, i.e. when the Hungarian party wanted to obtain balanced deliveries by offering goods which were entirely alien to the cooperation partner. The contemporary forms are more promising. It should be noted that the security and permanence of these relations is largely dependent on the extent to which the other party "needs" the Hungarian market. The Hungarian parties see benefits offered by them which may counteract the deterioration

of the market conditions and which may establish a lasting interest /these include the granting of exclusive distribution rights, as has been done in several cases/.

#### 4./ Experiences with cooperations in the food- and consumer goods industries

In the view of the Hungarian enterprises these cooperation agreements can unequivocally be considered successful /Menozzi f., 3M Italia/.

- The Menozzi firm was interested in imports. They offered benefits to the Hungarian partner to organize the production in Hungary the output of which it later wanted to import. To achieve its aim, it proved to be flexible and cooperative. They undertook the transfer of high level technology. Hereby the Hungarian partner has become specialized to Italian market and has adapted its production to its requirements. It has contributed to the success that in this cooperation the import had to be undertaken once, it happened in a less needy period, and it served the preparation of continuous exports.

In the case of certain transactions it has certainly contributed to the success that the entry into a market of ten million is noteworthy in the case of consumer goods /e.g. photographic articles, or swimming pool equipment/, and it is in the interest of our partners that they should keep the market in the long run too.

5./ Success or failure of cooperation and the selection of partners

In spite of temporary hitches, cooperation is very promising with three types of partners:

- The multinational corporations usually have a stable marketing network, a good marketing strategy, a co-ordinated concept for various markets, which they assert centrally also in their relations with the Hungarian enterprises. Links with them have proved to be flexible and capable of uniting the interests of the parties. The Hungarian enterprises have held the 3 M cooperation in high esteem, through which - by using numerous and varied commercial forms - both imports to Hungary and Hungarian exports to the industrialized countries increased substantially within the framework of broad commercial cooperation. Cooperation with FIAT made it possible for Ganz to deliver high-standard products profitably to several markets together with FIAT. This also serves as a very good reference.

- Those who are interested in simpler or casual cooperation:

- The link with Sadelmi-SAE is practically a simple commercial relationship. The sale of Hungarian goods is successful.

- The inclusion of Volani in Hungarian general contracting has unequivocally made fast and simple implementation possible, relying on economic considerations, - those who are interested in import activities.

x We have to add, that there exist<sup>an</sup> example of medium size enterprise which is doing successful cooperations in the field of engineering /Coma/, but it can be considered as an exception.

The preparation of a transaction between the enterprises of the two countries demands relatively protracted work /2-3 years/ and this is a factor contributing to mistrust.

In many cases flexibility /the endeavour of Coma to overcome the temporary Hungarian import restrictions/ helps to bridge over the more difficult periods of cooperation. On such occasions it is often helpful if the parties have known each other for a long time. In the case of close cooperation between enterprises /especially in industrial cooperation/ the question of mutual credits by the partners arises until the delivery into the opposite direction occurs. In Italian cooperations there are no such examples /Nikex has such a relationship with its Austrian partner/. In some cases this would facilitate the imports which are needed for the implementation of the cooperation, the delivery of the "buyback".

It should be noted that several enterprises are dissatisfied with their Italian partner, whom they consider unpunctual and inflexible. Recently it has seemed to the Hungarian enterprises that their Italian partners tend to return to their own suppliers /FIAT, Triulzi/.

x x x



Cooperation turnover represents a low share in total trade. Exports under cooperation agreements amounted to 3,4% of Hungarian export to Italy and imports under cooperation to 1,5% of total Hungarian imports from Italy. These figures do of course not include deliveries to third countries. However, in several cases the cooperations influence a considerable part of the activities of the Hungarian enterprise /Gerecse Farm Cooperative, FORTE, GANZ/. In other cases if they were functioning, they would influence the activity of the Hungarian partner /Triulzi/.

We consider that some of the impeding factors can be removed through more flexibility in finance and through the development of cooperations on third markets.