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08460



**United Nations Industrial Development Organization**

IND/IG.287/9  
5 December 1978  
ENGLISH

Expert Group Meeting on Industrial Financing  
Vienna, 6 - 8 December 1978

POSSIBILITIES FOR INCREASING TRADE AND ECONOMIC CO-OPERATION  
BETWEEN SOCIALIST COUNTRIES AND DEVELOPING COUNTRIES  
WITH SPECIAL REGARD TO PAYMENTS ARRANGEMENT

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**Introduction**

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Possibilities for Increasing Trade and  
Economic Co-operation between Socialist  
Countries and Developing Countries with  
Special Regard to Payments Arrangements

In both the short and the long run, a further increase in trade between the socialist countries of Eastern Europe and the developing countries can be anticipated. At present the socialist countries' share in the developing countries' trade is rather modest, averaging 4-5 per cent on the export and 5-6 per cent on the import side. The developing countries' share in the trade of the socialist countries oscillates about 13 per cent for exports and 10 per cent for imports. However, these shares do not reflect respective places which these countries have in world trade and production. This indicates that both the socialist countries and the developing countries still have considerable opportunities for increasing their trade relations. The dynamic development of their respective economies, as well as the changing situation on the world market create for both groups of countries new trade possibilities. Therefore, the socialist countries as well as the developing countries foresee in their plans and programmes a considerable growth of mutual trade.

Although, the trade structure seems likely to retain its present shape in the course of the next few years substantial efforts are undertaken on both sides to diversify their mutual purchase list. Particularly the socialist countries are going to include in their purchase agreements a larger proportion of manufactured goods from the developing countries. Utilization of the existing and future opportunities requires not only the maintenance of the present efforts but further activity on both governmental and non-governmental levels in both groups of countries.

Discussing the ways and means of financing trade and economic co-operation between the socialist and the developing countries, it is necessary to keep in mind a large background of mutual relations.

1. Premises for Increasing Trade and Economic Co-operation with the Developing Countries on the Side of the Socialist Countries

1.1. Economic Development of the Socialist Countries

All the socialist countries reached, due to their intensive efforts, the level of economically developed countries and became predominantly industrial countries as regards the level of development and the scope of the basic types of production. Since the share of the socialist

countries in the world trade does not fully match, as yet, the level of their economic development they are trying to participate more and more actively in the international exchange of goods and services. The growing specialization in certain branches and groups of products reflects this process in the best way. Further intensive industrialization, as well as the specialization processes in the socialist countries create a considerable demand for import of raw materials and semiproducts. The high level of internal consumption stimulates the growing import of agricultural goods. On the export side a more and more important role is played by the means of production sector which has traditionally developed very fast in all socialist countries and today represents a high level of technology, as well as large economic potential.

1.2. Economic Planning and Management System in the Socialist Countries

The central planning and management of the national economy is one of the most important features of the socialist countries' system.

In other words, it means, that the greatest attention is paid to the accomplishment of the targets in the long run at the cost, sometimes, of opportunities which appear in the shorter run. Partly, it is also due to the fact, that the socialist

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countries do not possess efficient marketing machinery and procedures. There is a certain similarity in this respect between the socialist countries and the developing countries.

Both groups of countries may be more interested in the stabilization of their economies in the long run than in the utilization of the present opportunities on the world market.

1.3. Economic Co-operation with CMEA /Council for Mutual Economic Assistance

Another aspect of the socialist countries system which, from the point of view of the developing countries, seems to be interesting is their complex offer of economic co-operation. The organization of the socialist state and the executive power of the governments and other administrative bodies enable the efficient coordination and fulfilment of all external obligations and agreements. They also make it possible to present a very broad offer of economic co-operation adjusted to the specific needs range.

The economic organization - CMEA acquires growing importance in economic relations between the socialist countries and the developing countries. Within the framework of this organization the socialist countries develop and implement the long-run development programmes which will also offer new possibi-

lities for the developing countries. The financial mechanism within the CMEA institution can provide the developing countries with new sources and techniques of financing.

2. Patterns and Institutional Framework for Economic Relations between Socialist and Developing Countries

The socialist countries offer a very complex and flexible institutional framework which can cover and be adjusted to the specific needs of the particular developing countries.

2.1. Patterns of the Trade Flow

The recent expansion of trade between the socialist and developing countries is partly due to the implementation of various long-term agreements, especially, on economic co-operation. The increasing number of industrial projects built by the socialist countries in the developing countries necessitates a large flow of deliveries of machines and equipment. This type of goods is still predominant in the export of the socialist countries. The developing countries are beginning to play a more significant role in the imports of the socialist countries as sources of supply of fuels and raw materials. The factor which was particularly trade creating in the past few years, was the repayment of credits by the developing countries. There is a continuous trend



towards widening the share of manufactured and semi-manufactured goods in the developing countries' export to the socialist countries. As for the structure of the socialist countries' export the equipment and machines prevail at the moment. There is, however, a clear tendency towards increasing the share of purchases of primary products and fuel on the part of the developing countries.

## 2.2. Patterns of Economic Co-operation

According to the information of the UNCTAD the socialist countries have established co-operation on the basis of intergovernmental agreements with 80 developing countries. Under these agreements about 2.700 projects have been completed in the developing countries. The majority of the projects were completed in the power industry, engineering and metal working industries, and ferrous and non-ferrous metal. Other important projects were completed in coal, gas and oil production, the building materials industry and the chemical industry. A large number of projects were registered in the field of light and food industries.

The offering by the socialist countries of very large economic complexes covering several branches and involving various activities of very broad scope was the characteristic feature of the recent co-operation agreements. The contracts covered not only

the supply of necessary equipment but also wide range services relevant to the implementation of the particular project. In several cases the offer of the socialist countries constituted a very comprehensive project aiming at developing whole sectors in the economies of the developing countries e.g. agriculture or vertically integrated industries e.g. mining or metallurgy. The capacities and international specialization of the socialist countries allow them to build up infrastructural and similar large-scale projects in the developing countries.

These complex projects very often include the professional training of qualified workers, technical personnel and other specialists. A new phenomenon turned out in the process of economic co-operation between the socialist countries and the developing countries, namely, the adjustment of some economic branches, with the aim of reaching stable complementarity of the mutual economic structures. Long - term agreements concluded between both partners provide the basis for such adaptation. This structural changes need time, and ability of the developing countries to secure stable deliveries of goods to the socialist countries will be very essential to the process. Multilateral arrangements, above all tripartite co-operation agreements were widely recognized and

carried into effect in the course of recent years. This form involves firms from socialist countries, developed market - economy countries and developing countries.

New possibilities for the economic co-operation between the socialist countries and the developing countries concern co-operation in third markets. This form of co-operation consists in the participation of firms from both groups of countries in projects in a third country, usually also a developing country.

The concept of co-operation found application also in the sphere of planning. Several socialist countries have concluded agreements with number of developing countries in which they obliged themselves to assist the latter in the fields of methodology and organization of planning. This new form of co-operation might also contribute to the development of economic co-operation and trade.

There are several forms of economic co-operation on which the socialist countries and the developing countries use mostly establishing their mutual relations in a very stable and long-term way. This range of possibilities includes the licensing with payment in resultant products, supply of plants and equipments in resultant products, sub-contracting, co-operation in production and marketing, joint tendering and joint ventures.

### 2.3. Legal and Institutional Framework

There is a trend towards a comprehensive approach in mutual trade and economic relations between the socialist countries and the developing countries. The socialist countries offer the wide set of legal and institutional forms to cover the various aspects of their relations with the developing countries. This complex approach helps to stabilize mutual relationship and, in consequence, may influence in a positive way the development of both partners. Comprehensive intergovernmental agreements or a series of agreements covering trade, economic, and technical and scientific co-operation have been widely accepted. Such agreements are very often concluded with the aim to solve their mutual problems such as balancing exports with imports, granting and repayment of credits etc. The agreements usually signed on long-term basis cover a period of 10, 15 or even 30 years. Although the bilateral forms of agreements and contracts continue to be the basic form of the mutual relations between the socialist countries and the developing countries a new form has recently emerged. The multilateral agreements signed between the CMEA taken as a whole and some individual developing countries will facilitate the creation and the implementation of big projects where the resources of several countries are necessary. Within the framework of the intergovernmental long-term agreement the lower level of administration e.g.

ministries, various associations and institutions and also enterprises of the socialist, and developing countries conclude and carry out various types of agreements and contracts.

The need to supervise and coordinate different types and ways of development of economic relations between the socialist countries and the developing countries is reflected in the formation and activities of the intergovernmental mixed commissions. Their main aim is to facilitate direct contact between enterprises and bodies functioning in trade and economic co-operation field. The commission works out perspectives and guidelines for efficient economic collaboration between both partners. Similar commissions or other institutional forms e.g. a joint chamber of commerce have been set up in recent years between various socialist and developing countries.

3. Payments arrangements between the socialist countries and the developing countries

The financial flow of resources between the socialist countries and the developing countries should be examined against the background of the above outlined general framework of economic relations between the countries of both groups.

The socialist countries are interested in the development of a long-term, stable economic relations with the developing countries. Therefore, the ways of financing should correspond to the interests and needs of both partners.

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The socialist countries recognizing the needs of the developing countries as for financial aid is concerned put forward, above all, the concept of economic co-operation. According to their experience this type of mutual relations may help the developing countries to utilize their internal resources in accordance with their national goals. It will also stabilize their economy and increase their share in the world trade.

In the field of payments arrangements between the two groups of countries, the trend is to introduce more flexible elements into the system. This means, replacing payments through clearing accounts with payments in convertible currencies. New elements were also introduced into the traditional clearing system where the conditions of swing credits became flexible and settlements of balances in longer periods were generally applied. In some cases a new regulations provide settlements in convertible currencies or their transferability to third countries. To-day the percentage of trade carried on through clearing payments agreements has reached approximately 55.

The trade and economic co-operations between the socialist countries and the developing countries is based to a large extent on the compensation principle. Various modalities of compensation can be seen in use starting from pure barter transactions through a buy-back contract up to subcontracting agreement. There are two aspects

which should be considered when speaking about the growing importance of compensation deals between the socialist countries and the developing countries. The first one concerns the currency difficulties experienced by many of the developing countries as well the socialist countries.

The second one refers to the experience obtained in this field by the socialist countries in their relations with the developed market-economy countries. Both reasons are sufficient to foresee the application of this type of modalities on a larger scale in economic relations between the socialist and the developing countries.

Discussing the credit policy of the socialist countries in respect to the developing countries one should mention several aspects which determined the implementation of this policy. Firstly, the socialist countries treat credit arrangements as one of many ways of promoting and developing economic relations with the developing countries.

Secondly, the socialist countries attach much attention to the establishment of stable ties, such as economic co-operation, and modalities of payments connected with this form.

Thirdly, because of fact that the economic relations between supply and demand at home differ from those in developed market-oriented economies, the socialist countries consider credit granting as an alternative and not complementary instrument or economic policy.

Forthly, besides government credits similar in terms to those generally granted all over the world, the socialist countries use widely various forms of commercial credits /credit line, buyer's credits, supplier's credit etc./. Their terms are similar to those accepted on the international market. The only difference can be observed in a slightly lower cost of credit and much larger range of items financed from particular credits. Fifthly, the socialist countries are also interested in obtaining credits from some developing countries within the framework of carried on joint projects.

In recent years a new mechanism has developed of financing by Western partner the currency part of the whole credit, the so-called reimbursable credit, within tripartite co-operation agreement. The essential difference between this type of credit and other forms consists in the timing of the operation, the nature of the link between the two agreements and the simplicity of the necessary wording.

Among the sources of credits for financing and economic co-operation one should mention national socialist countries' banks, their branches in the West, Western banks, international banks' consortium, and Investment Bank within the framework of CMEA. The Investment Bank governs a Special Fund which is designed to finance programmes for rendering economic and technical assistance to the developing countries.



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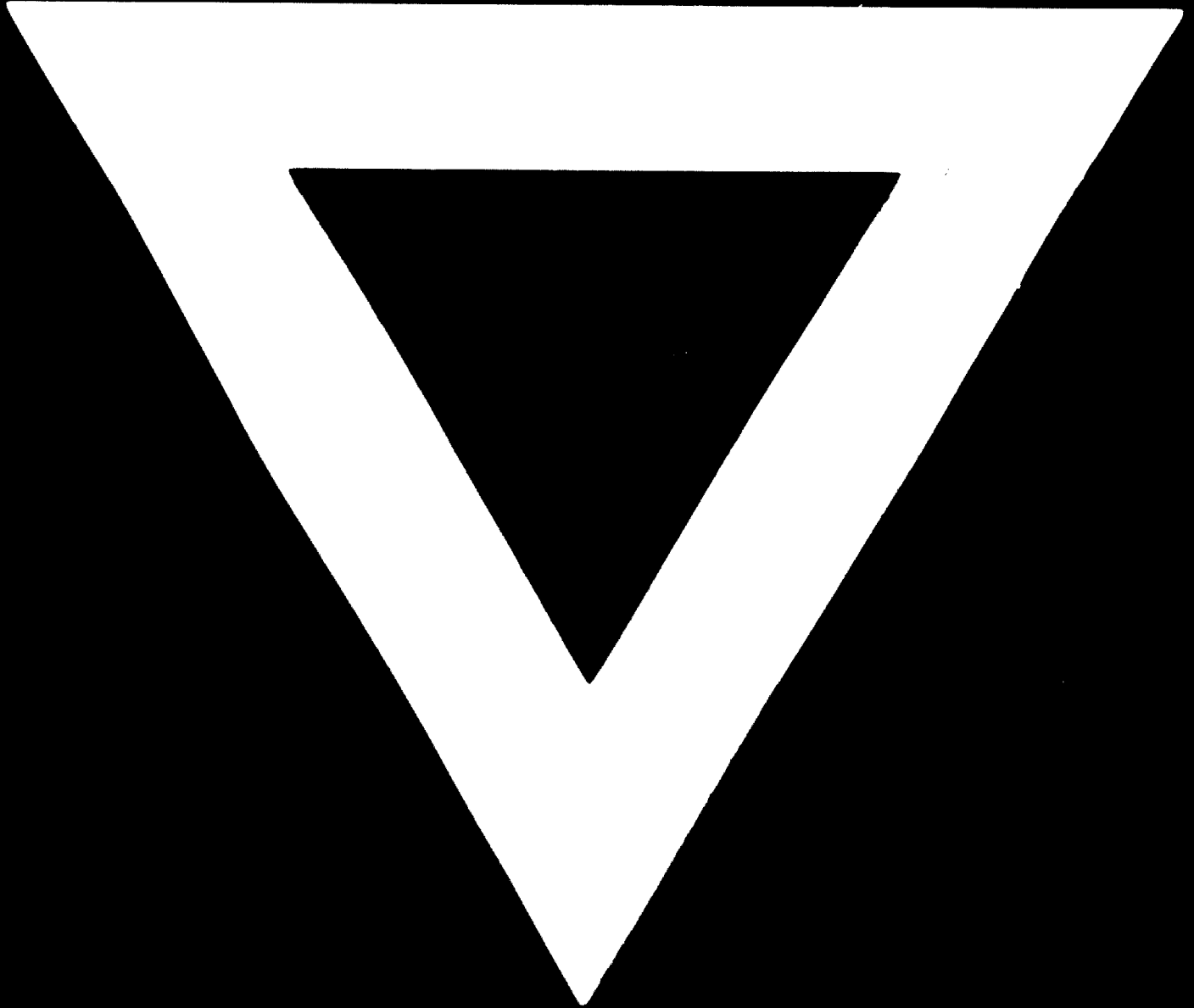
The Special Fund amounts to the value of 1,0 billion transferable roubles, 95 per cent of it being in transferable roubles and 5 per cent in convertible currencies. The Bank may grant loans from the Fund for various economic projects to central and other banks of the developing countries, as well as to enterprises and economic organizations in public and co-operativesectors of these countries. In certain cases loans can be madeto private firms. Credits are granted against respective security of their repayment. Up to present there have been almost no cases of the utilization of this source of financing. The explanation can be found in the fact that there are only a few examples of multilateral projects of the socialist countries as a whole in regard to the developing countries.

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The above paper does not include all the aspects connected with the problems outlined in the title. The lack of time was the most obvious reason for such a short and general description. Therefore it should be considered as working draft. The final paper will comprise more detailed information with some examples of financial aspects of the projects carried on by polish enterprises in the developing countries.



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